NEW ISSUE

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other consequences relating to the ownership or disposition of, or accrual or receipt of interest on, the Bonds. See "TAX MATTERS," herein.

$5,000,000
STATE OF VERMONT
General Obligation Bonds
(Vermont Citizen Bonds)
2002 Series C

Dated: Date of Delivery **Due:** August 1, as shown below

The Bonds will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $1,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds, as more fully described herein.

Interest on the Bonds will be payable semiannually on February 1 and August 1, commencing August 1, 2003. The Bonds will not be subject to redemption prior to maturity.

The Bonds will be general obligations of the State of Vermont and the full faith and credit of the State are pledged to the payment of principal of and interest on the Bonds. See "THE BONDS-Security for the Bonds," herein.

Due August 1	Principal Amount	Interest Rate	Yield
2003	$1,000,000	2.00%	1.00%
2004	1,000,000	2.00	1.10
2005	1,000,000	2.00	1.40
2006	1,000,000	2.00	1.79
2007	1,000,000	2.20	2.21

This cover page contains certain information for quick reference only. It is a summary of this issue. Prospective investors must read the entire Supplemental Official Statement, including EXHIBIT I hereto, to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued by the State and accepted by the Underwriter, subject to the final approving opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York on or about February 4, 2003.

Salomon Smith Barney

January 30, 2003

STATE OF VERMONT

ELECTED OFFICERS

Name	Title
JAMES H. DOUGLAS	Governor
BRIAN E. DUBIE	Lieutenant Governor
JEB SPAULDING	Treasurer
DEBORAH L. MARKOWITZ	Secretary of State
ELIZABETH M. READY	Auditor of Accounts
WILLIAM H. SORRELL	Attorney General

BOND COUNSEL
Orrick, Herrington & Sutcliffe LLP
New York, New York

FINANCIAL ADVISOR
Government Finance Associates, Inc.
New York, New York

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES DESCRIBED IN THIS SUPPLEMENTAL OFFICIAL STATEMENT HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO DEALER, BROKER, SALESPERSON, OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN AS CONTAINED IN THIS SUPPLEMENTAL OFFICIAL STATEMENT AND THE OFFICIAL STATEMENT ATTACHED HERETO AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON. NEITHER THIS SUPPLEMENTAL OFFICIAL STATEMENT NOR THE OFFICIAL STATEMENT ATTACHED HERETO CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS SUPPLEMENTAL OFFICIAL STATEMENT AND THE OFFICIAL STATEMENT ATTACHED HERETO NOR ANY SALE MADE HEREUNDER, SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE STATE OF VERMONT SINCE THE DATE HEREOF. THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND CERTAIN DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

TABLE OF CONTENTS

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SUPPLEMENTAL OFFICIAL STATEMENT

STATE OF VERMONT

$5,000,000
GENERAL OBLIGATION BONDS
(VERMONT CITIZEN BONDS)
2002 SERIES C

INTRODUCTORY STATEMENT

This Introductory Statement is intended to be a brief description of, and is therefore qualified by, the information contained in this Supplemental Official Statement. Each prospective purchaser reviewing this Introductory Statement is directed to review this entire Supplemental Official Statement, including the Appendices and the Official Statement attached hereto and made a part hereof (EXHIBIT I), as well as all the documents referenced, summarized or described in this Supplemental Official Statement.

This Supplemental Official Statement of the State of Vermont (the "State"), including cover pages, appendices and EXHIBIT I, is provided for the purpose of presenting certain information relating to the State in connection with the sale of the State's $5,000,000 aggregate principal amount of its General Obligation Bonds (Vermont Citizen Bonds), 2002 Series C (the "Bonds"). See "THE BONDS" herein for a description of the Bonds and the security therefor. The State of Vermont (the "State") previously issued $30,800,000 aggregate principal amount of its General Obligation Bonds, 2002 Series A on December 11, 2002 and $31,555,000 aggregate principal amount of its General Obligation Refunding Bonds, 2002 Series B on December 17, 2002 (the "2002 Series B Bonds"). In connection with the offering of the 2002 Series B Bonds, the State prepared its Official Statement, dated December 9, 2002 (the "Official Statement") which is attached hereto as EXHIBIT I and made a part hereof. EXHIBIT I contains information concerning the State, as well as other information material to prospective purchasers of the Bonds and should be read in its entirety. This Supplemental Official Statement is to be read and understood only in conjunction with the Official Statement and is subject to the limitations described therein. All capitalized terms not defined herein shall have the meanings ascribed to them in the Official Statement. The terms of the Bonds are described generally in this Supplemental Official Statement, which should be read together with the entire Official Statement.

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all reference to the definitive forms of the Bonds and their statutory authority.

Payment and Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds. See "THE BONDS -- Security for the Bonds" herein.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will mature on August 1 in each of the years as set forth on the cover page of this Supplemental Official Statement. The Bonds will bear interest from their date until their maturity at the rates per annum set forth on the cover page of this Supplemental Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of $1,000 or any integral multiple thereof on the records of The Depository

Trust Company, New York, New York ("DTC") and its Participants. See EXHIBIT I - "THE BONDS -- Book-Entry Only System."

Principal and premium, if any, when due, will be payable to each registered owner at the principal office of Chittenden Trust Company, Burlington, Vermont, Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on February 1 and August 1, commencing August 1, 2003, by check or draft mailed by the Paying Agent to each registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books of the State maintained by the Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds will be paid in immediately available funds, directly to DTC or such nominee as registered owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by Participants of DTC will be the responsibility of such Participants and other nominees of beneficial owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See EXHIBIT I - "THE BONDS -- Book-Entry Only System."

Authorization and Purpose

The Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated (the "General Obligation Bond Law") and pursuant to specific Acts of the General Assembly. The following Act of the General Assembly sets forth the capital purposes of the State for which the Bond proceeds are expected to be applied, provided that the State expects that under certain circumstances proceeds of the Bonds to the extent not expended for the purposes referenced below, may be expended for such capital projects as may be authorized by the General Assembly. Under Vermont law the State Treasurer, with the approval of the Secretary of Administration, is authorized to transfer unspent proceeds from the sale of bonds, including the Bonds, from the projects for which such bonds were initially issued, to other capital projects of the State authorized by the General Assembly. See EXHIBIT I - "STATE INDEBTEDNESS-State Indebtedness and Procedure for Authorization."

General Obligation Bonds (Vermont Citizen Bonds), 2002 Series C

Act 149 of 2002 Section 8	Natural Resources - Various Projects	$5,000,000

Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State of Vermont will be pledged to the payment of the principal of and interest on the Bonds.

Pursuant to State law, the Treasurer of the State is required to pay the principal of, and interest on, the Bonds as the same become due without further order or authority. The amount necessary each year to pay the maturing principal of, and interest on, the Bonds is required to be included in and made a part of the annual appropriation bill for the expense of State Government. State law requires that principal of, and interest on, the Bonds that may come due before appropriation for the payment thereof has been made are to be paid from the General Fund, the Transportation Fund or other applicable special fund.

For the payment of principal of and interest on general obligation indebtedness, including the Bonds, the State has the power to levy taxes, including taxes on all taxable property and income in the State, without limitation as to rate or amount. For a description of the State's sources of revenues and accounting thereof, see EXHIBIT I - "STATE FUNDS AND REVENUES" hereto and for a more complete discussion of the authorization of general obligation bonds and the provisions for payment thereof, see EXHIBIT I - "STATE INDEBTEDNESS -- State Indebtedness and Procedure for Authorization."

Record Date

The record date for each payment of interest is the fifteenth day of the month preceding the interest payment date, provided that, with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners at least ten (10) days before the special record date.

Redemption

The Bonds will not be subject to redemption prior to their stated dates of maturity.

ADDITIONAL INFORMATION AFFECTING THE STATE

The Official Statement attached hereto as EXHIBIT I contains important financial and other information concerning the State, as well as other information material to prospective purchasers of the Bonds and should be read in its entirety. The information in the following paragraphs should be read together with such information.

Fiscal Year 2003 General, Transportation, and Education Funds Recent Results

Through December 31, 2002, combined General Fund, Transportation Fund and Education Fund receipts are tracking $4.912 million ahead of the consensus cash flow management plan for the State. Results for the individual funds were mixed as presented in the tables below. Both the General Fund ($6.094 million ahead of the level expected through the month of December) and the Transportation Fund ($0.650 million ahead of the level expected through the month of December) reached the halfway point of the State's fiscal year slightly ahead of the consensus cash flow target through the month of December. The Education Fund ($1.831 million below the level expected through the month of December) finished the first half of fiscal year 2003 somewhat behind its consensus cash flow target through the month of December.

The following tables set forth actual collections by major fund through December 31, 2002.

Fiscal Year 2003 General Fund Results

July 1, 2002 – December 31, 2002
(Unaudited)

	Revenue Estimate[1]	Revenue Collections
Personal Income Tax	$206,397,100	$207,217,156
Sales & Use Tax	109,759,800	110,487,876
Corporate Income Tax	13,182,400	8,373,174
Meals & Rooms Tax	41,649,800	42,406,217
Property Transfer	5,523,400	5,864,673
Other Revenues	42,750,900	51,007,862
Total	$419,263,400	$425,356,958

[1] Official Revenue Estimates as of July 10, 2002.

Fiscal Year 2003 Transportation Fund Results

	July 1, 2002 – December 31, 2002 (Unaudited) Revenue Estimate[1]	Revenue Collections
Gasoline Tax	$27,886,500	27,428,244
Diesel Tax	8,278,800	7,770,468
Purchase and Use Tax	29,818,300	30,370,411
Motor Vehicle Fees	22,928,800	23,262,852
Other Revenues	8,130,500	8,860,637
Total	$97,042,900	$97,692,613

[1] Official Revenue Estimates as of July 10, 2002.

Fiscal Year 2003 Education Fund Results

	July 1, 2002 – December 31, 2002* (Unaudited) Revenue Estimate[1]	Revenue Collections
Corporate Tax	$3,092,200	$1,964,078
Meals and Rooms Tax	9,423,400	9,626,554
Bank Franchise Tax	1,754,700	1,291,868
Lottery	7,230,300	6,808,852
Gas Tax	5,575,400	5,483,845
Motor Vehicle Purchase & Use Tax	5,963,800	6,088,666
Telecommunications Tax	7,278,800	7,174,011
Other Revenues	1,265,300	1,314,730
Total	$41,583,900	$39,752,604

[1] Official Revenue Estimates as of July 10, 2002.
* Excluding property taxes, which are collected at the local level with net payments to or from the State made later in the year.

January 2003 Revised Revenue Estimates

On January 14, 2003 the Emergency Board met to establish a revised revenue forecast for the General Fund, Transportation Fund, and Education Fund for fiscal years 2003 and 2004. The following is a description of the updated consensus forecast of the General Fund by major component.

Personal Income Tax: The State's consensus forecast for the Personal Income Tax for fiscal year 2003 and fiscal year 2004 released on January 14, 2003 is based on: (1) recent experience with collections through the first six months of fiscal year 2003, (2) the incorporation of nearly two years of actual receipts experience in a declining capital gains income realization environment, (3) the expectation of continued constrained levels of capital gains income realizations given the continued softening and volatility in national equity markets, and (4) expected job and wage growth over the period. See "EXHIBIT I – "STATE ECONOMY – Economic Activity – The Vermont Economic Outlook." The new consensus revenue forecast for fiscal years 2003 and 2004 also incorporates the actions of the 2002 session of the Vermont legislature to permanently offset the tax reducing effects of the federal "Economic Growth and Tax Relief Reconciliation Act of 2001" and the more recent federal stimulus package. The January 14, 2003 consensus forecast is based on the laws in effect on such date. Therefore the revenue estimates do not include the potential effect on State revenues of any provisions in the $674 billion federal stimulus package proposed by the President. In total, the revised January 14, 2003 consensus revenue forecast for the personal income tax forecasts revenue receipts of $407.8 million in fiscal year 2003 and $425.8 million in fiscal year 2004, reflecting a 1.0% and a 4.4% annual growth rate, respectively.

Sales and Use Tax: The January 2003 updated consensus forecast for the Sales and Use Tax for fiscal year 2003 is $219.7 million, representing a 2.3% increase for the year. For fiscal year 2004, the revised January 2003 consensus forecast calls for revenue of $227.6 million, an increase of 3.6% over the consensus forecast for fiscal year 2003. This latest forecast revision reflects a still fragile and laboring national recovery, a weak holiday retailing season nationally and in Vermont, and the attendant weakness in retail activity over the middle two quarters of the State's 2003 fiscal year. This revised consensus forecast expects that sales and use tax receipts will pick up to a more characteristic 3-4% annual growth rate as the Vermont economy approaches a more typical economic recovery pace in job and income growth during the course of fiscal year 2004. The January 14, 2003 consensus forecast also reflects the revenue effects of two recently enacted Sales and Use Tax exemptions, including exemption for individual clothing purchases of less than $110 that took effect on December 1, 1999 (corresponding to fiscal year 2000) and the recently enacted exemption for footwear that took effect on January 1, 2001 (corresponding to fiscal year 2001). The forecast also incorporates the continuation of the State's current 5% tax rate. Receipts from the State's Sales Tax on Telecommunications, which has been imposed since October of fiscal year 1998, are dedicated to the Education Fund as of fiscal year 1999 and are therefore not included in the Sales and Use Tax totals.

Corporate Income Tax: The January 2003 consensus forecast for the Corporate Income Tax reflects the on-going weak condition of corporate profits. The forecast includes a total of $22.7 million in General Fund receipts for fiscal year 2003, representing a 12.4% decline from fiscal year 2002. The fiscal year 2004 consensus forecast at $28.2 million for the General Fund portion of this tax source calls for a relatively modest 24.3% rebound from the very low fiscal year 2003 level. Since fiscal year 2003 corporate tax receipts are expected to be 44.6% below the level of collections in this tax source experienced during fiscal year 2001, the modest rebound included in the fiscal year 2004 consensus revenue estimate will still remain 31.1% below the $40.9 million collected by the State during fiscal year 2001. For the most part, the relatively weak forecast for the corporate tax is attributable to both cyclical and structural factors. A significant portion of high levels of refund activity in this tax source over the greater part of the past two fiscal years have emerged as the national and state economies moved into their first recession in roughly a decade and the very weak and insecure recovery that has recently begun in the national economy. However, a significant portion of the fiscal year 2002 decline in revenues also was attributable to a series of non-recurring developments during fiscal year 2001 that inflated refunds by approximately $10 million in fiscal year 2002. These events will not be in effect during fiscal year 2003 or beyond. With proper adjustment for these non-recurring circumstances, actual fiscal year 2001 revenues would have been significantly lower and fiscal year 2002 revenues would have been significantly higher.

The January 14, 2003 consensus forecast also reflects the structural aspects of this tax source's decline, where corporate tax revenues overall have declined as a percentage of total General Fund revenues over the past two decades. Some of the reasons for this long-term declining trend include increased use of tax minimization-avoidance measures as accounting systems have become more sophisticated and companies are more adept at optimizing their tax payments between their facilities and subsidiaries. To a lesser degree, this structural decline also reflects increased claims for State tax credits under the incentives program of the Vermont Economic Progress Council. The new consensus revenue forecast also reflects State legislation enacted to off-set federal tax reduction measures that were part of the federal "economic stimulus package" in 2001. However, this forecast does not include any of the prospective corporate tax measures contained in the President's recently announced $674 billion, 10-year stimulus package.

Meals and Rooms Tax: The combination of the still weak economic recovery nationally and in Vermont, the on-going uncertainties regarding the travel and tourism industry in the aftermath of the tragic September 11, 2001 terrorist attacks, and sub-par winter weather during the 2001-02 winter season resulted in Meals and Rooms tax receipts in fiscal year 2002 finishing roughly even with the exceptional level of receipts in fiscal year 2001. This latest forecast revision for fiscal year 2003 and fiscal year 2004 incorporates the latest more upbeat collections data, an encouraging start to the 2002-03 winter season at the majority of Vermont's winter resorts, but the continued weakness in the New England regional economy and national equity markets. The upside of the current regional economic situation and equity market volatility- weakness is that regional travelers appear to be seeking travel destinations that are closer to home (e.g. reached via ground transportation modes in lieu of air travel). The downside of the weak economic and equity market situation is that travelers are being much more frugal with their meals and entertainment spending once they reach their destinations. The fiscal year 2003 consensus forecast expects $83.3 million in receipts for the General Fund under this component, corresponding to only a 2.8% rate of increase. Revenues are expected to increase to $85.9 million in fiscal year 2004, representing a 3.1% rate of growth for that year in this tax source.

Other Taxes and Revenues: This category of taxes, fees, and other revenues is comprised of revenue sources ranging from the State's tax on insurance premiums (including captive insurance companies), taxes levied on real estate transfers, taxes on property or revenues levied on telephone companies operating in Vermont, the Estate Tax, and other similar levies and assessments. These tax levies and sources have historically mirrored changes in economic activity in Vermont. The January 2003 consensus forecast for these revenue sources reflect historical collections patterns, special factors and circumstances that have been identified in consultation with various State departments and agencies responsible for receipts collection and monitoring for these sources. These special circumstances include an estimated $4.5 million in additional revenues in fiscal year 2003 for the Fines and Forfeits category of the General Fund, reflecting the settlement of the State's claims against several major financial services companies. This special factor will not be repeated in fiscal year 2004 and beyond. The revised consensus projections also reflect the recent federal tax changes in the Estate Tax as it affects Vermont and much stronger than expected collections in the estate tax over the first half of fiscal year 2003. The revised January 2003 consensus forecast does not include any revenues from Lottery profits/sales since these revenues are now statutorily transferred to the State's Education Fund as of July 1, 1998. However, it does include the results of the 2002 Legislative Session that included a permanent adjustment to off-set the expected State estate tax losses associated with the federal tax relief legislation known as the "Economic Growth and Tax Relief Reconciliation Act of 2001."

The following table reflects General Fund revenue history from fiscal year 2000 through fiscal year 2002 and projected and forecasted revenue amounts for fiscal year 2003 and fiscal year 2004:

General Fund Revenues[1] (Net)
($ in Millions)

COMPONENT	Actual 2000	% Chg.	Actual 2001	% Chg.	Actual 2002	% Chg.	Forecast[2] 2003	% Chg.	Forecast[2] 2004	% Chg.
TAXES:										
Personal Income	$431.7	12.6%	$454.3	5.2%	$403.8	-11.1%	$407.8	1.0%	$425.8	4.4%
Sales & Use	216.5	5.3	215.1	-0.7	214.7	-0.2	219.7	2.3	227.6	3.6
Corporate	41.0	-11.3	40.9	-0.1	25.9	-36.7	22.7	-12.4	28.2	24.3
Rooms & Meals	75.2	5.7	79.3	5.5	80.9	2.1	83.3	2.8	85.9	3.1
Cigarette[3]	12.3	-3.0	0.0	-100.0	-	-	-	-	-	-
Liquor	9.3	0.4	10.6	12.9	10.6	0.4	10.9	3.0	11.1	1.8
Insurance	30.3	3.0	32.1	5.8	34.9	8.5	36.7	5.1	38.3	4.4
Telephone Receipts	1.2	92.7	1.2	-2.9	0.2	-84.9	0.2	3.3	0.2	0.0
Telephone Property	9.1	-0.1	9.2	1.0	10.2	10.8	10.4	2.1	10.6	1.9
Beverage	4.8	2.2	4.8	0.5	5.0	3.1	5.0	0.1	5.1	2.0
Electrical Energy	3.5	-2.3	3.1	-10.8	2.8	-9.9	2.6	-8.3	2.6	0.0
Estate	13.6	-42.0	12.7	-6.2	13.3	4.2	16.9	27.5	12.1	-28.4
Property Transfer	6.9	9.0	7.0	2.1	9.9	41.6	9.7	-2.1	9.4	-3.2
Bank Franchise	3.5	-1.8	3.7	5.8	2.2	-39.6	2.3	5.1	2.7	14.3
Other taxes	2.8	45.3	2.1	-26.4	2.0	-2.7	2.2	10.2	2.3	2.3
TOTAL TAXES:	$861.7	6.4%	$876.1	1.7%	$816.7	-6.8%	$830.4	1.7%	$861.8	4.4%
OTHER REVENUES:										
Business Licenses	$2.6	-15.9%	$2.5	-3.7%	$2.6	0.5%	$2.4	-6.2%	$2.5	4.2%
Fees	9.4	5.4	9.3	-1.1	8.6	-7.5	8.8	2.0	9.1	3.4
Services	1.3	0.6	1.2	-5.8	1.2	4.0	1.5	20.9	1.4	-6.7
Fines, Forfeits	2.4	29.6	1.9	-19.9	2.5	31.0	7.2	183.8	2.8	-61.1
Interest, Premiums	7.1	53.4	8.0	12.4	3.4	-57.1	2.7	-13.3	3.2	21.5
Special Assessments	0.4	10.2	0.4	-11.0	0.0	-88.3	0.1	-6.4	0.1	10.0
Other	0.7	50.9	0.6	-13.9	0.6	-9.3	1.4	114.7	0.7	-50.0
TOTAL OTHER	$23.9	15.9%	$23.9	-0.1%	$18.9	-20.8%	$24.0	28.1%	$19.8	-17.6%
TOTAL GENERAL FUND	$885.6	6.6%	$899.9	1.6%	$835.4	-7.2%	$854.4	2.3%	$881.5	3.2%

1 Prepared on a cash basis and are unaudited.
2 Based on consensus revenue forecast completed in January 2003.
3 As of July 1, 2000, all Cigarette Tax revenues are to be deposited in the Health Care Access Trust Fund.
NM means Not Meaningful
SOURCE: Vermont Department of Finance and Management.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2000 through 2002, budgeted operating results for fiscal year 2003 reflecting appropriations approved by the Legislature and budgeted operating results for fiscal year 2003 reflecting adjustments to the appropriations approved by the Legislature as recommended by the Governor for the primary operating funds of the State: the General Fund, the Transportation Fund, and the Education Fund.

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General Fund Operating Statement
Fiscal Years 2000 – 2003
($ in Millions)

	Actual FY 2000	Actual FY 2001	Preliminary Actual FY 2002	As Passed FY 2003	FY 2003 with Proposed Amendments*
Sources					
Current law revenues	$885.47	$895.85	$837.51	$852.00	$854.44
Direct applications & reversions	8.70	9.90	20.53	9.17	12.11
Additional Property Transfer Tax	-	-	-	2.50	2.50
Campaign Finance to G/F				0.30	0.30
Tax refund reserve	-	33.39	4.05	-	-
Tax refunds paid out	-	(29.34)	-	-	-
Current year sources	894.17	909.80	862.09	863.97	869.35
For approp from prior year surplus reserve	11.14	11.59	-	-	-
Prior year unallocated operating surplus	0.00	0.00	0.00	0.00	0.00
Total sources	**905.31**	**921.39**	**862.09**	**863.97**	**869.35**
Uses					
Base appropriations	798.51	836.69	858.44	891.83	891.83
Pay Act	-	-	4.48	6.38	6.38
One-time appropriations	50.73	7.73	9.22	-	-
FY 2003 Budget Adjustment					5.41
Rescission				(18.63)	(18.63)
One-time approps from prior year surplus reserve	-	11.59	-	-	-
Contingent one-time approps from same yr surplus	-	17.18	-	-	-
School construction approp from prior yr surplus	11.14	8.00	-	-	-
Same year reversion: Human Services caseload	(5.62)	(0.50)	-	-	-
Total uses	**854.76**	**880.69**	**872.14**	**879.58**	**884.99**
Operating surplus (deficit)	**50.55**	**40.70**	**(10.05)**	**(15.61)**	**(15.64)**
Transfers of surplus (to) / from other funds					
Transportation Fund	-	(5.51)	(13.85)	6.45	6.45
Tobacco Settlement				9.20	9.20
Transportation Fund Stabilization Reserve	-	(0.64)	-	-	-
Housing & Conservation Trust Fund	-	(1.00)	-	-	-
Medicaid Reimbursement Administrative Fund	(0.54)	-	-	-	-
VHAP Trust Fund	(1.95)	(10.00)	-	-	-
Education Fund	-	-	(5.60)	-	-
Total transfers (to) / from other funds	(2.49)	(17.15)	(19.45)	15.65	15.65
Transfers of surplus (to)/from Reserves					
Budget Stabilization Reserve	(1.33)	(1.66)	29.50	(4.34)	(4.34)
Human Services Caseload Reserve	(6.15)	(1.50)	-	-	-
Reserved for transfer to Debt Service	-	(12.00)	-	-	-
Reserved in GF Surplus Reserve	(40.58)	(4.34)		4.34	4.34
Total reserved in the GF	(48.06)	(19.50)	29.50	0.00	0.00
Total transfer of surplus	**(50.55)**	**(36.65)**	**10.05**	**15.65**	**15.65**
Unallocated operating surplus	**0.00**	**4.05**	**0.00**	**0.04**	**0.00**
GF Reserves (cumulative)					
Budget Stabilization Reserve	41.36	43.02	13.52	17.86	17.86
Human Services Caseload Reserve	16.05	18.05	18.05	18.05	18.05
Reserved for transfer to Debt Service	-	12.00	-	-	-
Reserved in GF Surplus Reserve	40.58	4.34	4.34	-	-
Reserved for school construction	-	15.21	-	-	-
Total GF reserve balances	**$97.99**	**$92.62**	**$35.91**	**$35.91**	**$35.91**

Results may not add due to rounding

* FY 2003 Budget As Passed with changes recommended by the Governor.

Transportation Fund Operating Statement
Fiscal Years 2000 – 2003
($ in Millions)

	Actual FY 2000	Actual FY 2001	Preliminary Actual FY 2002	As Passed FY 2003	FY 2003 with Proposed Amendments[*]
Sources					
Current law revenues	$181.30	$185.95	$198.15	$206.40	$207.02
Direct applications & reversions	0.10	0.12	1.29	0.15	0.15
Federal reimbursements	12.34	8.22	8.46	8.30	8.30
Current year sources	193.74	194.29	207.90	214.85	215.47
For approp from General Fund transfer	-	5.51	13.85	-	-
For approp from Rutland MMTC	0.37	-	1.17	-	-
For approp from FMIS & paving	1.60	-	-	-	-
Prior year unallocated operating surplus	2.81	9.75		5.94	5.94
Total sources	**198.52**	**209.55**	**222.92**	**220.79**	**221.41**
Uses					
Base appropriations	182.00	203.32	210.46	205.37	205.37
Pay Act	-	-	2.45	3.35	3.35
FY 2003 Budget Adjustment					0.03
Rescission	-	-	-	(3.79)	(3.79)
One-time appropriations	3.91	-	-	0.24	0.24
One-time approps from prior year	1.60	-	-	5.94	5.94
Contingent one-time approps from same	-	-	-	-	-
Total uses	**187.51**	**203.32**	**212.91**	**211.11**	**211.14**
Operating surplus (deficit)	**11.01**	**6.23**	**10.01**	**9.68**	**10.27**
Transfers of surplus (to) / from other funds					
General Fund	-	0.64	-	(6.46)	(6.46)
Downtown Fund	(0.40)	(0.80)	(0.70)	(0.80)	(0.80)
Central Garage Fund	-	(4.45)	(1.99)	(1.99)	(1.99)
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / from other funds	(0.77)	(4.98)	(3.05)	(9.62)	(9.62)
Transfers of surplus to Reserves					
Budget Stabilization Reserve	(0.49)	(0.08)	(1.01)	(0.06)	(0.06)
Rutland MMTC Reserve	-	(1.17)	-	-	-
Total reserved in the TF (designated)	(0.49)	(1.25)	(1.01)	(0.06)	(0.06)
Total transfer of surplus	**(1.26)**	**(6.23)**	**(4.07)**	**(9.68)**	**(9.68)**
Unallocated operating surplus	**9.75**	**0.00**	**5.94**	**0.00**	**0.59**
TF Reserves (cumulative)					
Budget Stabilization Reserve	8.80	8.88	9.89	9.95	9.95
Rutland MMTC Reserve	-	1.17	-	-	-
Total TF reserve balances	**$8.80**	**$10.05**	**$9.89**	**$9.95**	**$9.95**

Results may not add due to rounding

[*] FY 2003 Budget As Passed with changes recommended by the Governor.

Education Fund Operating Statement*
Fiscal Years 2000 – 2003
($ in Millions)

	Actual FY 2000	Actual FY 2001	Preliminary Actual FY 2002	As Passed FY 2003	FY 2003 with Proposed Amendments**
Sources					
Current law revenues	$71.89	$72.94	$69.80	$71.91	$69.90
Lottery Revenue	18.93	17.44	16.59	16.60	16.60
Statewide Property Tax	395.11	406.73	424.15	453.18	453.18
Local Share Property Tax Receipts	131.60	171.09	197.39	226.42	226.42
General Fund Appropriations	231.10	238.03	246.36	254.99	254.99
Reduction to General Fund appropriation				(9.28)	(9.28)
Medicaid Reimbursement	7.94	8.18	8.26	8.48	8.52
Direct Applications/Reversions	2.82	11.79	9.67	3.60	3.52
Interest on Fund Balance	0.29	0.22	0.17	0.20	0.20
Current year sources	859.68	926.42	972.39	1,026.10	1,024.05
Prior year unallocated operating surplus	38.76	10.69	0.02	0.00	0.00
Total sources	898.44	937.11	972.41	1,026.10	1024.05
Uses					
Base Appropriations	761.28	786.59	809.71	833.97	833.97
Adjustments to appropriations				(6.08)	(6.08)
Local Share Payments	116.21	148.31	174.94	198.21	198.21
School Construction Assistance	7.00	0.00	0.00	0.00	0.00
Total uses	884.49	934.90	984.65	1,026.10	1,026.10
Operating surplus (deficit)	**13.95**	**2.21**	**(12.24)**	**0.00**	**(2.05)**
Transfer of surplus (to)/from other funds					
General Fund	14.55	0.00	5.60	0.00	0.00
Total transfers (to)/from other funds	14.55	0.00	5.60	0.00	0.00
Transfer of surplus (to)/from Reserves					
Education Fund Reserve	(17.81)	(2.19)	6.64	0.00	2.05
Total reserved in the Education Fund	(17.81)	(2.19)	6.64	0.00	2.05
Total transfer of surplus	**(3.26)**	**(2.19)**	**12.24**	**0.00**	**2.05**
Unallocated operating surplus	10.69	0.02	0.00	0.00	0.00
Education Fund Reserve	18.81	21.00	14.36	14.36	12.31
Total EF reserve balance	$18.81	$21.00	$14.36	$14.36	$12.31

Results may not add due to rounding

* Gross Operating Statement. In order to reduce transactions between the State, towns and school districts, state funds collected at the local level were left in local treasuries and "netted" against obligations the State had to local school districts. "Net" operating statements for the Education Fund only showed the funds that actually flowed through the State treasury. "Gross" operating statements provide a better view of State spending for education in Vermont.

** FY 2003 Budget As Passed with changes recommended by the Governor.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum income taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B to this Supplemental Official Statement.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity with respect to such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), such difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations the amount of tax-exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has covenanted in certain documents relating to the Bonds to comply with certain restrictions designed to ensure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Tax Certificate and Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal, State, or local tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the bondholder and the bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

No assurance can be given that any future legislation or clarification of the Code, if enacted into law, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service, including but not limited to selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Bonds, or bonds which present similar tax issues, will not affect the market price for the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

FINANCIAL ADVISOR

Government Finance Associates, Inc. serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, Government Finance Associates, Inc. has read and participated in the preparation of certain portions of this Supplemental Official Statement. Government Finance Associates, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments.

RATINGS

The State has received ratings of "AA+," "Aa1" and "AA+" from Fitch Inc., Moody's Investors Service and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. (each, a "Rating Agency"), respectively on the Bonds. The State furnished each Rating Agency with certain information and materials concerning the Bonds and the State. Generally, each Rating Agency bases its rating on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that such rating will continue for any given period of time or that such rating may not be suspended, lowered or withdrawn entirely by such Rating Agency if, in its judgement, circumstances so warrant. Any explanation of the significance of the ratings may be obtained only from each respective Rating Agency.

UNDERWRITING

The Bonds are being purchased for re-offering by the Underwriter, Salomon Smith Barney Inc., at an aggregate purchase price of $5,039,440.00 and the Underwriter will receive a fee from the State in an amount equal to $14,500.00. The Contract of Purchase provides that the Underwriter will purchase all of the Bonds if any are purchased. The Underwriter may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices stated on the cover page hereof. The public offering prices (or yields) set forth on the cover page hereof may be changed from time to time after the initial offering by the Underwriter.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, whose opinion approving the validity and tax exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of the opinion of Bond Counsel is attached hereto as Appendix B. Certain legal matters will be passed upon for the Underwriter by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish certificates of the Treasurer and Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or to the best of each officer's knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or the levy or collection or enforcement of any taxes to pay principal of or interest on the Bonds.

The Governor's and Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate, dated the date of delivery of the Bonds, signed by the Governor and the Treasurer of the State, certifying that to the best of their knowledge this Supplemental Official Statement (including EXHIBIT I hereto), as of the date of this Supplemental Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, commencing with the report for the 2001-2002 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the State with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the State with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in Appendix A to this Supplemental Official Statement, "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the purchasers in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Pursuant to existing continuing disclosure agreements, the State has filed the annual information required, although the State's filing of such information for fiscal year 1999-2000 and 2000-2001 was not within the time periods required by such continuing disclosure agreements.

ADDITIONAL INFORMATION

The Commissioner of Finance and Management and the Treasurer report on the financial conditions for the State including its operations and balances, receipts, and disbursements of the various funds in the Annual Financial Report. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. Jeb Spaulding, 133 State Street, Montpelier, Vermont 05633-6200, Telephone: (802) 828-2301 or from Mr. J. Chester Johnson, Chairman, Government Finance Associates, Inc., 919 Third Avenue, 27th Floor, New York, New York 10022, Telephone: (212) 836-4819.

It is the current policy of the State to provide copies of the General Obligation Bond Law, prior Official Statements of the State and the State's annual financial reports upon request. The State reserves the right at any time to change this policy to comply with law or for any other reason.

Any statements in this Supplemental Official Statement (including EXHIBIT I hereto) involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Supplemental Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

This Supplemental Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose.

By: /s/ James H. Douglas
James H. Douglas
Governor

By: /s/ Jeb Spaulding
Jeb Spaulding
Treasurer

Dated: January 30, 2003

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APPENDIX A

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of $5,000,000 General Obligation Bonds (Vermont Citizen Bonds), 2002 Series C (the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Holder” or “Bondholder” means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), commencing with the report for the fiscal year ended on June 30, 2002 (to be filed no later than June 30, 2003), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to each Repository or the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available;

Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major General Fund Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State dated December 9, 2002; and

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults.

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties.

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties.

(v) substitution of the credit or liquidity providers or their failure to perform.

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(vii) modifications to rights of Bondholders.

(viii) optional, contingent or unscheduled calls of bonds.

(ix) defeasances.

(x) release, substitution or sale of property securing repayment of the Bonds.

(xi) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) If the Issuer determines that the occurrence of a Listed Event is material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the terms of the Bonds.

SECTION 6. <u>Termination of Reporting Obligation</u>. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the State Treasurer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided pursuant to the terms of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default pursuant to the terms of the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: February __, 2003

STATE OF VERMONT, as Issuer

By: ______________________________
Jeb Spaulding
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: $5,000,000 General Obligation Bonds, 2002 Series C

Date of Issuance: February __, 2003

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated February __, 2003. [The Issuer anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

STATE OF VERMONT, as Issuer

By_____________________________

EXHIBIT B

List of Nationally Recognized Municipal Securities Information Repositories at the time of execution and delivery of the Continuing Disclosure Agreement.

This list may change from time to time. The Continuing Disclosure Agreement requires that information and notices be provided to each Repository. This list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.htm.

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Email: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

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APPENDIX B

FORM OF OPINION OF BOND COUNSEL

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February __, 2003

Honorable James H. Douglas
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

Re: $5,000,000 State of Vermont General Obligation Bonds (Vermont Citizen Bonds), 2002 Series C

Dear Governor Douglas:

We have acted as Bond Counsel in connection with the issuance on the date hereof, by the State of Vermont (the "State") of its General Obligation Bonds (Vermont Citizen Bonds), 2002 Series C (the "Bonds") in an aggregate principal amount of $5,000,000, issued pursuant to and by authority of No. 149 of the Public Acts of 2002 and pursuant to and by authority of Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended (the "Bond Act"). The Bond Act is a part of the State Taxation and Finance Law, Chapter 13 of Title 32 of the Vermont Statutes Annotated.

In such connection, we have reviewed the Constitution and statutes of the State, the Tax Certificate and Agreement of the State dated the date hereof (the "Tax Certificate"), certificates of officers of the State and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. The Bonds are dated the date of delivery, mature on August 1 in each of the years and bear interest, payable semi-annually on February 1 and August 1 in each year, commencing August 1, 2003, until maturity thereof, at the respective rates per annum, shown below:

Year	Principal Amount	Rate
2003	$1,000,000	2.00%
2004	1,000,000	2.00
2005	1,000,000	2.00
2006	1,000,000	2.00
2007	1,000,000	2.20

Certain agreements, requirements and procedures contained or referred to in the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by and validity against, any parties other than the State. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Tax Certificate including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call your attention to the fact that the rights and obligations under the Bonds and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding general obligations of the State, to the payment of the principal of and interest on which the full faith and credit of the State are pledged.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

EXHIBIT I

OFFICIAL STATEMENT, DATED DECEMBER 9, 2002 OF THE STATE OF VERMONT RELATING TO ITS $31,555,000 GENERAL OBLIGATION BONDS, 2002 SERIES B

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New Issue

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other consequences relating to the ownership or disposition of, or accrual or receipt of interest on, the Bonds. See "TAX MATTERS," herein.

$31,555,000
STATE OF VERMONT
General Obligation Refunding Bonds
2002 Series B

Dated: December 1, 2002 **Due:** August 1, as shown below

The 2002 Series B Bonds (the "Bonds") will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of $5,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds (See "BOOK-ENTRY ONLY SYSTEM" herein).

Interest on the Bonds will be payable semiannually on February 1 and August 1, commencing August 1, 2003. The Bonds will not be subject to redemption prior to maturity.

The Bonds will be general obligations of the State of Vermont and the full faith and credit of the State are pledged to the payment of principal of and interest on the Bonds. See "THE BONDS-Security for the Bonds" herein.

2002 Series B Bonds

Due August 1	Principal Amount	Interest Rate	Yield
2003	$ 465,000	2.00%	1.30%
2006	3,935,000	5.00	2.34
2007	3,950,000	3.25	2.71
2008	3,895,000	5.00	3.05
2009	3,900,000	3.50	3.29
2010	3,850,000	5.00	3.52
2011	3,850,000	5.00	3.71
2012	3,855,000	5.00	3.81
2013	3,855,000	5.00	3.94

(Accrued interest to be added)

The Bonds are offered subject to the final approving opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about December 17, 2002.

UBS PaineWebber Inc.

December 9, 2002

STATE OF VERMONT

ELECTED OFFICERS

Name	Title
HOWARD B. DEAN*	Governor
DOUGLAS A. RACINE*	Lieutenant Governor
JAMES H. DOUGLAS*	Treasurer
DEBORAH L. MARKOWITZ	Secretary of State
ELIZABETH M. READY	Auditor of Accounts
WILLIAM H. SORRELL	Attorney General

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* Term will expire January 9, 2003. Elections were held on November 4, 2002. No candidate for Governor or Lieutenant Governor received a majority of votes cast. Under the Vermont Constitution, if no candidate receives a majority of the votes, the State Legislature is directed to elect to fill the office with one of the three candidates for whom the greatest number of votes have been returned. It is expected that the Legislature will elect to fill the office of Governor with James H. Douglas. The candidat e for Governor who received the second highest number of votes has asked the Legislature not to consider him. It is expected that the Legislature will elect to fill the office of Lieutenant Governor with Brian Dubie. In addition, Jeb Spaulding was elected Treasurer.

BOND COUNSEL
Orrick, Herrington & Sutcliffe LLP
New York, New York

FINANCIAL ADVISOR
Government Finance Associates, Inc.
New York, New York

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES DESCRIBED IN THIS OFFICIAL STATEMENT HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO DEALER, BROKER, SALESPERSON, OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER, SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE STATE OF VERMONT SINCE THE DATE HEREOF.

TABLE OF CONTENTS

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STATE OF VERMONT

$31,555,000
GENERAL OBLIGATION REFUNDING BONDS
2002 SERIES B

INTRODUCTORY STATEMENT

This Introductory Statement is intended to be a brief description of, and is therefore qualified by, the information contained in this Official Statement. Each prospective purchaser reviewing this Introductory Statement is directed to review this entire Official Statement, including the Appendices attached hereto, as well as all the documents referenced, summarized or described in this Official Statement.

This Official Statement of the State of Vermont (the "State"), including the cover page and appendices, is provided for the purpose of presenting certain information relating to the State in connection with the sale of $31,555,000 aggregate principal amount of its General Obligation Refunding Bonds, 2002 Series B (the "Bonds"). See "THE BONDS" herein for a description of the Bonds and the security therefor.

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all reference to the definitive forms of the Bonds and their statutory authority.

Payment and Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds. See "THE BONDS -- Security for the Bonds" herein.

THE BONDS

Description of the Bonds

The Bonds will be dated December 1, 2002 and will mature on August 1 in each of the years as set forth on the cover page of this Official Statement. The Bonds will bear interest from their date until their maturity at the rates per annum set forth on the cover page of this Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of $5,000 or any integral multiple thereof on the records of the Depository Trust Company, New York, New York ("DTC") and its Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Principal and premium, if any, when due, will be payable to each registered owner at the principal office of Chittenden Trust Company, Burlington, Vermont, Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on February 1, and August 1, commencing August 1, 2003, by check or draft mailed by the Paying Agent to each registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books of the State maintained by the Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds will be paid in immediately available funds, directly to DTC or such nominee as registered owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by Participants of DTC will be the responsibility of such Participants and other nominees of beneficial owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Authorization and Purpose

The Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, pursuant to Section 961, Chapter 13, of Title 32 of the Vermont Statutes Annotated (the "Refunding Bond Act") to refund the State's General Obligation Bonds, 1993 Series B maturing in 2006-2013 (the "Refunded Bonds"). The Refunded Bonds will be redeemed on October 15, 2003 at a redemption price of 102% of the principal amount thereof.

The Refunding Bond Act is a part of the State Taxation and Finance Law, Chapter 13 of Title 32 of the Vermont Statutes Annotated (the "General Obligation Bond Law"). The Refunding Bond Act authorizes the State Treasurer, with the approval of the Governor, to issue general obligation bonds to refund all or any portion of one or more issues of general obligations bonds at any time after the issuance of the bonds to be refunded and to refinance outstanding certificates of participation or long-term lease purchase agreements. The Refunding Bond Act further authorizes the State Treasurer to contract with a bank or trust company to serve as escrow agent for the proceeds of the refunding bonds.

The Refunding Bond Act provides that the portion of the proceeds of refunding bonds deposited with the escrow agent and required for the payment of the bonds to be refunded shall be irrevocably committed and pledged to such purpose and the holders of the refunded bonds shall have a lien upon such moneys and investments which shall become valid and binding upon the issuance of the refunding bonds, without any further act (including, without limitation, the filing or recording of the escrow contract) and that the pledge and lien upon such moneys and investments shall become valid and binding against all parties having claims of any kind in tort, contract or otherwise, against the State, irrespective of whether such parties have notice thereof.

In addition to the Bonds, the State expects that it will issue $30,800,000 aggregate principal amount of its General Obligation Bonds, 2002 Series A (the "2002 Series A Bonds") on December 11, 2002 and $5,000,000 aggregate principal amount of its General Obligation Bonds, 2002 Series C (the "2002 Series C Bonds") before March 1, 2003 to finance certain capital projects.

Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State of Vermont will be pledged to the payment of the principal of and interest on the Bonds.

Pursuant to State law, the Treasurer of the State is required to pay the principal of, and interest on, the Bonds as the same become due without further order or authority. The amount necessary each year to pay the maturing principal of, and interest on, the Bonds is required to be included in and made a part of the annual appropriation bill for the expense of State Government. State law requires that principal of, and interest on, the Bonds that may come due before appropriation for the payment thereof has been made are to be paid from the General Fund, the Transportation Fund or other applicable special fund.

For the payment of principal of and interest on general obligation indebtedness, including the Bonds, the State has the power to levy taxes, including taxes on all taxable property and income in the State, without limitation as to rate or amount. For a description of the State's sources of revenues thereof, see "STATE FUNDS AND REVENUES" and for a more complete discussion of the authorization of general obligation bonds and the provisions for payment thereof, see "STATE INDEBTEDNESS -- State Indebtedness and Procedure for Authorization" herein.

Record Date

The record date for each payment of interest is the fifteenth day of the month preceding the interest payment date, provided that, with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners at least ten (10) days before the special record date.

Redemption Provisions

The Bonds will not be subject to redemption prior to maturity.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the

Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a Series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Bonds of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures.. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State and the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent to DTC only.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and the State takes no responsibility for the accuracy thereof.

THE STATE CANNOT AND DOES NOT GIVE ANY ASSURANCE THAT DTC WILL DISTRIBUTE TO PARTICIPANTS, OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE TO BENEFICIAL OWNERS, PAYMENTS OF PRINCIPAL OF, INTEREST AND PREMIUM, IF ANY, ON THE BONDS, OR ANY OTHER NOTICE OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE OR ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE STATE IS NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENTS OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE BONDS OR ANY ERROR OR DELAY RELATING THERETO.

STATE GOVERNMENT

Governmental Organization

The Constitution of Vermont provides for three traditional branches of Government--the Legislative, the Executive and the Judicial. The elected officers of the State are the Governor, Lieutenant Governor, Treasurer, Secretary of State, Auditor of Accounts and the Attorney General. All are elected at general elections for a term of two years, and each may succeed himself or herself in office.

<u>The Legislative Branch</u>: The bicameral General Assembly of Vermont convenes biennially with an adjourned session in the biennium. The House of Representatives has 150 members and the Senate has 30 senators. Members of the House of Representatives and Senate are elected for two-year terms in each general election. Bills for the raising of revenues must originate in the House of Representatives but may be amended or rejected by the Senate.

<u>The Executive Branch</u>: All constitutional officers of the State reside in the Executive Branch. The Governor is responsible for the faithful execution of all laws enacted by the Legislature and the management of the major departments and agencies of the Executive Branch, briefly described as follows:

(1) Agency of Administration: The Agency of Administration centralizes and integrates certain administrative and fiscal functions and activities of State government. The Agency is composed of the Office of the Secretary, the Department of Taxes, the Department of Finance and Management, the Department of Personnel, the Department of Buildings and General Services.

(2) Agency of Transportation: The Agency consists of five functional divisions which are responsible for the planning, design, construction, maintenance and operation of State highways, railroads, and airports and the Department of Motor Vehicles which is responsible for the administration of motor vehicle registrations, drivers' licenses and other motor vehicle regulations. The Agency of Transportation is responsible for the administration and collection of the motor vehicle purchase and use and motor fuel taxes as well as motor vehicle registrations and renewals and driver's license fees.

(3) State Board of Education: The State Board of Education consists of seven persons, all of whom are appointed by the Governor with the advice and consent of the Senate. The State Board of Education has supervision over and management responsibilities for the Department of Education and the public school system and has the power to establish such advisory commissions as in the judgment of the Board will be of assistance to it in carrying out its duties. The Board has the authority to enter into agreements with school districts, municipalities, states and the United States for services, educational programs, or research projects; to examine and determine all appeals made to it; and to make regulations governing the certification and qualification of all public school teachers.

(4) Agency of Natural Resources: The Agency consists of the Department of Fish and Wildlife, the Department of Forests, Parks and Recreation, the Department of Environmental Conservation, the Division of Protection, the Interagency Committee on Natural Resources and the State Natural Resources Conservation Council. The Environmental Board, the Interstate Commission on the Lake Champlain Basin and the New England Interstate Water Pollution Control Commission are attached to the Agency for the purposes of administrative support.

(5) Agency of Commerce and Community Development: The resources of the Agency of Commerce and Community Development are utilized to foster continued improvement in the Vermont economy and provide assistance to Vermont communities in their efforts to plan for the future. The Agency is composed of the Department of Economic Development, the Department of Housing and Community Affairs, the Division for Historic Preservation, the Department of Tourism and Marketing, and Vermont Life Magazine.

(6) Agency of Human Services: The Agency of Human Services administers the programs responsible for meeting the human service needs of Vermont citizens. The Agency is composed of the Departments of Social and Rehabilitation Services, Prevention, Assistance, Transition and Health Access, Corrections, Health, Developmental and Mental Health Services, Aging and Disabilities, and the Offices of Child Support, State Economic Opportunity, Alcohol and Drug Abuse, and Rate Setting.

(7) Other Departments: There are a number of other departments responsible for other service areas within the Executive Branch as follows: the Department of Agriculture, Food and Markets, the Department of Banking, Insurance, Securities and Health Care Administration, the Department of Employment and Training, the Department of Labor and Industry, the Department of Libraries, the Department of Liquor Control, the Military Department, the Department of Public Safety, the Department of Public Service and the Public Service Board.

The Judicial Branch: The Judicial Branch of the State is composed of a Supreme Court, and Superior, District, Family, Environmental, and Probate Courts and the Judicial Bureau. The Supreme Court has a Chief Justice and four Associate Justices. There are 32 Trial Judges sitting in the Superior, District and Family Courts, including one Administrative Judge. The Family Court also has five magistrates. The Environmental Court has one Judge. All judges are appointed by the Governor with the advice and consent of the Senate for six-year terms. The Judicial Bureau has four hearing officers appointed by the Administrative Judge. The Probate Court has eighteen districts in the State, each with a Probate Judge elected by the electorate of their respective districts for terms of four years.

There are fourteen counties in the State. Their administration consists of two Assistant Judges of each Superior Court, one or two Judges of Probate, a State's Attorney and a Sheriff, all of whom are elected quadrennially. County Clerks and County Treasurers are appointed by the Assistant Judges. County government is more titular than executory in that the major responsibilities and functions of government pass directly from the State to the cities and towns.

STATE ECONOMY

General

Vermont, which is known as the Green Mountain State, was first settled in 1666 when the French built Fort St. Anne on Isle LaMotte in Lake Champlain. The first English settlement was in 1690 at a location that is now the southern Vermont town of Vernon. Vermont ratified the United States Constitution on January 10, 1791 and joined the Union as the fourteenth State on March 4 of the same year. Rural in character, Vermont measures 9,615 square miles (including land and water area), ranking the State 45th among the 50 states. In terms of land area only, Vermont's 9,249 square miles ranks it 43rd among the 50 states. Vermont's population as of April 1, 2000 was 608,827, a ranking of 49th among the fifty states, which ranking is unchanged since the 1990 Census (U.S. Bureau of the Census). The State capital is Montpelier, with a population of 8,035 in 2000. Population counts as of April 1, 2000 indicate the state's largest cities and towns are Burlington, population 38,889; Essex, population 18,626; Rutland, population 17,292; Colchester, population 16,986; and Bennington, population 15,737.

Demographic Trends

Mid-year estimates from the Census Bureau for 2001 show that Vermont's population grew by an estimated 3,000 persons between 2000 and 2001, representing a 0.55% rate of increase. That rate of increase was somewhat slower than the 0.95% increase in population for the nation between 2000 and 2001, and was roughly the same as the 0.56% rate of population increased experienced for the New England region as a whole. Vermont experienced a growth of an estimated 49,000 persons between 1990 and 2001, representing an average annual rate of 0.75% per year. That represented a slightly faster annual rate of increase over the 1990-2001 period than the 0.54% rate of growth per year that was experienced by the New England region as a whole, but was somewhat slower than the average national growth rate of 1.24% per year over the same period.

Table 1
Comparative Population Growth
Vermont, New England, United States
1970-2001

	Vermont		New England[1]		United States	
Year	Population (in Thousands)	Annual % Increase Over Preceding Period[2]	Population (in Thousands)	Annual % Increase Over Preceding Period[2]	Population (in Thousands)	Annual % Increase Over Preceding Period
2001	613	0.55%	14,022	0.56%	284,797	0.95%
2000	610	0.79%	13,944	0.54%	282,125	1.27%
1990	564	0.95%	13,207	0.67%	248,710	0.94%
1980	513	1.41%	12,348	0.41%	226,504	1.09%
1970	443	1.32%	11,848	1.21%	203,302	1.25%

[1] The New England states are: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
[2] For 2001, the annual percentage increase is over 2000. For 1970, 1980, 1990 and 2000, the annual percentage increase is the average annual increase during the preceding ten-year period.
SOURCE: U.S. Department of Commerce, Bureau of the Census.

Data from the Census Bureau indicates that in 2000 the median age of the Vermont population was 37.7 years, 2.4 years older than the national average median age of 35.3 years. Among the various age groupings, Vermont has a proportionally higher concentration of persons age 18 Years and older (75.8% for Vermont versus 74.3% for the United States) and is roughly the same as the New England regional average (75.8% versus 74.3%). Vermont has below average age concentrations in the Under 5 Years relative to both the New England average (at 6.0% of the total) and U.S. average (at 6.8% of the total) and a below average concentration in the Over 65 Years categories relative to the U.S. average concentration (but not with respect to the New England average). Vermont has the same percentage of its population 85 Years and Older relative to the U.S. (1.6% for the State versus 1.6% for the U.S.), but a slightly lower percentage than the New England region as a whole (1.6% in Vermont versus 1.8% for the region).

According to the latest data from the U.S. Bureau of the Census (March 2001) the Vermont population has a significantly higher level of educational attainment than the U.S. population as a whole. Table 2 shows that a total of 90.0% of Vermont's residents aged 25 years and over have completed a high school education, a level which ranks Vermont seventh highest among the 50 states and significantly above the 84.1% that have done so nationally. In addition, over one-fourth of Vermont's residents (28.3%) in that same Over 25 Years age category have received a four-year college degree. That percentage ranks Vermont ninth highest among the 50 states and compares favorably to the 25.1% of the population age 25 years and older who have received such a 4-year degree nationally.

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of March 2001

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	90.0%	7th	84.1%
COLLEGE:			
Bachelor's Degree or More	28.3%	9th	25.1%

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Data from the 2000 Census also indicates that Vermont's population is primarily rural. A total of 72.2% of the State's population lived outside of the State's single metropolitan area—the highest percentage among the 50 states. Vermont's percentage was over 3½ times the national average percentage of persons living outside of metropolitan areas (19.7%), and was almost seven times the average for the Northeast U.S.

Table 3
Metropolitan vs. Non-Metropolitan Area Populations
As of April 1, 2000

	Metropolitan Population		Non-Metropolitan Population	
	Total (in Thousands)	Percentage	Total (in Thousands)	Percentage
United States	225,968	80.3%	55,453	19.7%
Northeast	47,986	89.5	5,608	10.5
New England	11,707	84.1	2,215	15.9
Vermont	169	27.8	439	72.2

SOURCE: Bureau of the Census, U.S. Department of Commerce.

Property Valuation

Annually, the Vermont Tax Department through its Division of Property Valuation and Review conducts a study of all the grand lists (i.e., tax rolls) prepared by the towns in the State. The purpose of this study, commonly known as the "Equalization Study," is to derive estimates of the fair market value of all of the property in the State in order to determine the property tax rates. Since most towns' grand lists are not at the statutorily required 100 percent fair market value standard in any given year, the study attempts to bring all property on the grand lists to 100 percent of market value, thereby "equalizing" all values statewide.

In general, equalized property values were determined by comparing grand list values to actual market sales or property appraisals and deriving the ratio representing that relationship for each municipality. The resulting estimates for property in each municipality were then aggregated to derive an estimate of the market value of all property in the State.

Changes to Vermont Statutes due to Act 178 of the 1996 Session of the Vermont Legislature (changing the agricultural and forest taxation program to reflect the value of property based on its "Current Use") and Act 60 of the 1997 Session (changing the method of education financing in Vermont) altered the nature of determining the value of taxable property under Vermont Law. The changes had the following effects: (1) the Current Use program requires municipalities to assess property enrolled in that program at their "use" value as opposed to market value; and (2) the definition of taxable property now reflects only the total fair market value or use value of property that is subject to taxation for school purpose.

The State's Current Use program provides for property taxation of active agricultural land, farm buildings, conservation and managed forest land at their productive use value rather than fair market value. Use value is almost always lower than market value resulting in lower values included in the grand lists.

Change in the composition of the grand list under Act 60 also has reduced the value of total taxable property for funding schools. First, machinery and equipment and inventory are exempted from the education property tax. Second, property is excluded from the taxable property value (for a period up to 10 years) as a result of locally voted exemptions and stabilization agreements approved prior to July 1, 1997.

Table 4 sets forth the fair market value of all taxable property in the State as certified by the Division of Property Valuation and Review from 1990 to 1996 and comparable estimates for 1997 through 2001. The estimates from 1997 - 2001 include an estimate of the fair market value of property enrolled in the Current Use Program. These later values have not been certified by the Division of Property Valuation and Review.

Table 4
Equalized Property Values
1990-2001

Equalization Date As of April 1,	Fair Market Value
2001**	$43,942,727,721
2000**	41,358,590,703
1999**	39,053,369,590
1998**	38,967,094,160
1997**	38,399,375,459
1995*	37,558,139,758
1993*	36,471,723,016
1992	36,766,102,513
1991	35,286,508,007
1990	31,300,748,717

* After 1992 and beginning with 1993, the Fair Market Value and Assessed Value of all taxable property in the State is equalized every two years. Beginning in 1998, equalization studies were again conducted annually by the Division of Property Valuation and Review.

** Estimated, based on an estimate for the difference between the Fair Market Value and the Use Value of property enrolled in the Current Use Program. The estimate of the amount of the exemptions for property enrolled in the Current Use Program in 1997 was $744.8 million, $792.3 million in 1998, $816.7 million in 1999, and $866.1 million in 2000, and $924.4 million in 2001.

SOURCE: Vermont Tax Department, Division of Property Valuation and Review, Annual Report.

Economic Activity

The opinions set forth in this section are provided by Economic & Policy Resources, Inc., Williston, Vermont, based upon such firm's independent evaluation of economic information and trends in the State of Vermont and the United States. The firm serves as a consultant to the State of Vermont with responsibilities as to matters of the analysis of economic trends and economic forecasting as well as providing technical forecasting services to the State with respect to the short-term, consensus revenue estimating process performed pursuant to Vermont statute.

The description of the economic forecast for the United States and Vermont is based on the same underlying forecast contained under "The Economic.com National Economic Forecast Assumptions" herein that is provided by Economy.com of West Chester, Pennsylvania. The economic forecasts are completed in conjunction with the New England Economic Project ("NEEP"), a non-profit regional economic forecasting group.

The U.S. Economic Situation. The U.S. economic recovery that began earlier this calendar year and offered a significant degree of optimism in the aftermath of the September 11, 2001 terrorist attacks has slowed. The combined effects of equity market weakness and volatility, sluggish national job markets, and global political-economic uncertainty has reduced businesses' willingness to increase investment and other spending, and taken some of the strong forward momentum out of spending by consumers. Because consumer spending and a recovery in business capital investment spending are viewed as key determinants in the near-term U.S. economic outlook, these recent developments have raised the level of uncertainty regarding the sustainability of the current recovery.

Even so, it remains unlikely that recent poor and volatile performance in equity markets and the still-missing reinvigoration of business capital investment spending will prematurely end the recovery. That assertion is supported by the fundamentally sound condition of the U.S. economy and the presence of significant amounts of both fiscal and monetary policy stimulus in the economy. Regarding the former, the still strong, close to four percent rate of increase in productivity at U.S. businesses, the continuing restrained national inflation rate, and lean inventory levels (relative to sales levels) underpin these still sound fundamentals. One of the most distinguishing characteristics of the past short and relatively mild national economic downturn was the fact that productivity, as measured by output per hour, continued to increase over the entire period of recession—the first time that has occurred in modern U.S. economic history. With respect to existing fiscal and monetary policy stimuli already resonating in the economy, the continued low level of interest rates through recent monetary policy actions, the recent federal actions to reduce personal and corporate income taxes, and increased expenditures by the federal government for national defense and homeland security have all acted to support increased levels of national economic activity. As a result of the national recession and the above-referenced tax reducing measures, the budget balance of the federal government has shifted dramatically from a large surplus condition to a deficit, a fiscal policy configuration that in the past has been stimulative to the U.S. economy.

Although consumer spending during the third quarter of 2002 remains upbeat—particularly for housing—and the fiscal and monetary policy configuration of the federal government remains supportive of continued recovery, the business sector continues to show a reluctance to expand and increase capital spending or payrolls. Although businesses no longer are cutting their investment spending and payrolls deeply, businesses remain concerned about the sustainability of the national recovery and the potential negative reaction of consumers and the global economy if the U.S. were to take hostile military action towards Iraq. This concern has resulted in a limited willingness to make long-term commitments to build productive capacity and add to their permanent work force. The ability of consumers to spend to continue to support the economic recovery, even at the recently more restrained level of spending activity, will depend on a sustained turnaround in national labor markets and an increase in national capital investment spending by businesses. Neither of these developments has yet to take hold. While it appears that some of the pre-conditions for those recovery-sustaining events have begun to fall into place, neither of these developments has emerged to take a more dominant role in supporting the recovery. Unless or until this occurs, it is unlikely that the recovery will gain enough traction to consolidate the economy's progress to-date, and move forward into an expansionary phase.

Because of its importance to supporting consumer spending through the wealth effect and because of its role in providing affordable equity capital to maturing businesses, the weakness in stock and financial markets is expected to have a particularly important influence on the near-term performance of the economy. It would be highly unusual for the current economic recovery to reach an expansionary phase without a significant, positive turn in stock prices, in part because of what such an increasing stock price performance typically implies for increased corporate profitability and improved business financial condition. Moreover, considering the increasingly important role that stock market performance has had on the collective mood or confidence levels of consumers, businesses and investors, the longer financial market uncertainty persists, the greater the negative influence it will have on the still-unfolding national economic recovery.

The Vermont Situation: In contrast to the national economic turnaround already underway, the still flat performance of the State's labor market indicates there is not yet enough firm economic evidence to conclude that the Vermont 2001-02 economic downturn has ended. Since the State's economic downturn began in early 2001, there have been significant, publicly-announced layoffs by several major employers in the State, including those by IBM (with a total of 1,289 announced job reductions since November of 2001), Blodgett Corporation, Mack Molding, B.F. Goodrich Aerospace, GE-Rutland, Ben & Jerry's Homemade, Inc., and Ethan Allen. In addition, C&S Wholesalers recently announced that it would be moving its corporate headquarters facility during 2003, along with 300-400 jobs from Brattleboro, Vermont to Keene, New Hampshire. Although no Vermonter is expected to lose his or her job as a result of this move (Keene is within easy commuting distance of Brattleboro), it is expected there will be a loss of between 300-400 relatively high paying jobs from Vermont's payroll job count totals. The combined effect of these decisions represents a significant and negative development for the regional economy in southeast Vermont.

Despite those past developments, recent job market data indicate that the State's labor markets have recently begun to take on a somewhat brighter tone, perhaps indicating that the Vermont economy is nearing the transition point from recession to recovery. First, since the beginning of calendar year 2002, year-over-year job change statistics in the non-seasonally adjusted payroll job survey data have improved significantly versus those same numbers from the late-2001 and early-2002 time frame. In October, year-over-year job change statistics show that the number of private sector payroll jobs increased by 850 jobs or by 0.3 percent of its October 2001 job count total. That was the first increase in the year-over-year data since May of 2001, and continues a generally improving trend since the 6,450 jobs lost or –2.5% of the prior year total low point experienced during the month of December 2001. The second indicator of an improving trend in Vermont labor markets comes from a review of the sector-by-sector job change statistics over time. More specifically, looking at the non-seasonally adjusted payroll job count survey data measuring the year-over-year job change performance for all 33 of the State's job categories reveals there has been an improving trend since the beginning of calendar 2002. In January of 2002, there were a total of 19 sectors, representing more than half of the State's major job categories, that had experienced a year-over-year job loss of 50 or more jobs, with only 14 either gaining 50 or more jobs or registering a flat year-over-year job change performance over the previous year. By October of 2002, that performance had improved to a total of 17 sectors either adding 50 or more jobs or registering a flat year-over-year performance and 16 major job categories falling into the job loss category. Third, the month-to-month job change trend also turned positive in the month of October, gaining a seasonally-adjusted 2,000 jobs between the months of September and October. Moreover, relative to the lowest payroll job count total experienced by the Vermont economy during the current recession in April of 2002, it should also be noted that there has been a 2,200 job improvement in the seasonally adjusted payroll job count total—despite having to absorb the labor market effects of the 788 job reduction at IBM that adversely affected the August and September 2001 labor market data and the closure of the Ames Department Store chain. Taken alone, none of these developments would be cause for much optimism regarding a near-term turning point in the Vermont economy. Taken together, these developments indicate the Vermont economy may now be nearing a transition point, even if there is not yet enough improvement in labor markets or other information to make a positive determination that the State's economic downturn has ended. The fact that the year-over-year job change and seasonally-adjusted payroll numbers have both recently demonstrated some improvement is encouraging, especially in the context of the recent major job reductions announced over the Summer and early Fall 2002.

Beyond those signs of improvement, there also have been recent scattered announcements of job additions in the Vermont economy. These announcements include: the 200 job addition announced by IDX at the recent job conference held in Essex Junction in the aftermath of the recent second round of lay-offs at IBM, the 20 job addition announced by Specialty Filaments of Middlebury, the re-hiring of 200 people at IBM for its manufacturing operations (after the 988 job reduction announcement for a "net" loss of 788 jobs), the 40 job expansion at Dynapower in South Burlington, the recall of all laid off workers and the addition of 40 new jobs at Mack Molding in Arlington, the re-opening of Vermont Country Foods in Springfield (even if the 15-20 jobs may only be temporary), the still positive situation with the Vermont Machine Tool company in Springfield (in light of the recent receipt of new Community Development Block Grant monies to solidify the firm's facilities financing), and the proposed expansion in southern Vermont at Nastech, a manufacturer of automotive parts. In addition, it also appears that the Vermont economy is receiving a positive boost from the Construction sector (including solid levels of residential building activity and strong levels of activity in the institutional sector—mostly at higher education institutions and hospitals), and from what initially appears to be positive levels of Summer and early-Fall 2002 travel and tourism activity. The positive levels of tourism activity is also evidenced by the positive performance of the major consumption taxes in the General Fund, and particularly in the tourism-sensitive Meals and Rooms Tax.

If Fall and Winter tourism activity are positive, that would be an important ingredient (among others) supporting an expected Vermont economic turnaround during the Winter 2003 period.

Even with the above, an assertion that the Vermont recession has ended remains premature at this juncture. Economic conditions across the New England region, and especially in the State of Massachusetts, remain weak, and the positive turn in some labor market indicators must endure the revision process and persist long enough to prove themselves real before a determination that the State's economic downturn has ended. It should also be noted that considerable downside risk to the near-term performance of the Vermont economy remains, ranging from global and national risks (such as the weak global economy and rising energy prices due to the threat of military action in Iraq) to state and local risks (such as those that would normally be expected as the State nears a transition point from recession to recovery.

Of the six New England states, Vermont has experienced the second highest comparative peak to trough (or current level) job losses over the 2001-02 period of recession, a level that is somewhat higher than the comparable -2.0 percent peak-to-trough private sector payroll job loss performance nationally. Such a performance relative to the region would be expected in Vermont, considering (1) the State's positioning as a capital goods manufacturer (which is highly dependent on business capital investment spending), (2) the slow turnaround in national capital investment markets (particularly in the Information Technology and Telecommunications sectors that are very important to the State economy), (3) the fact that Travel and Tourism is a very important Vermont economic driver (and a Vermont get-away or vacation is a postpone-able discretionary purchase), and (4) the fact that Vermont's retail sector has an orientation toward "premium" or high-end of the retailing spectrum (and high-end retailing has been hit hard over the past recession). The State also relies on non-wage income (e.g. capital gains, dividends, interest income), and the recent downturn in the stock market and the low level of interest rates has also had a dampening effect on such non-wage income growth components both in the State and nationally as well. Even so, the fact that the most important factor in Vermont's economic recovery—the national economic recovery—remains in place is a positive factor underpinning the expected Vermont economic turnaround this winter. When combined with the evidence of improving labor market conditions in the State, the currently mixed and increasingly less negative character of Vermont labor market data indicates there is in fact some reason for optimism that a Vermont recovery will in fact be underway during the first calendar quarter of 2003.

The Economy.com National Economic Forecast Assumptions: The Economy.com national economic forecast forms the basis for the State economic outlook. Economy.com provides a detailed five-year forecast for the U.S. economy two times per year through the State's affiliation with the New England Economic Project. The following section details the national economic forecast underpinning the Vermont economic forecast that was developed during the fall of 2002 and presented below.

According to Economy.com, the near-term forecast for the U.S. economy expects that the current U.S. recovery will survive – although it is expected to just barely do so over the near-term period. The Economy.com scenario expects that a timely recovery in business investment spending (and other business spending) will occur, although the relatively "jobless, fits-and-starts" nature of the recovery activity is expected to continue over at least the initial part of calendar 2003. GDP growth is expected to pick up to a 2.8% annual rate during the third quarter of calendar 2002, thanks in part to surging vehicle and home sales, but there will be a weakening during the fourth quarter of 2002 after production activity related to the Summer surge in auto sales the current slowdown in U.S. economic activity shows up in the GDP numbers (a fall off to a 2.3% growth rate in GDP is expected during the fourth quarter of 2002). After that pause, GDP growth is expected to gradually re-build positive momentum to reach the 4.0% or greater growth rate level in the third quarter of calendar 2003. The U. S. economy is then expected to experience what amounts to a modest slowdown in late calendar 2003, and then begin to pick up again over the calendar 2005 time frame, before re-building a modest rate of forward momentum in GDP growth again during calendar 2006.

Forecasted payroll job growth under the Economy.com national economic scenario follows a somewhat similar pattern. Job market weakness, as evidenced by sluggish job growth and an increasing unemployment rate, is expected during the late-2002 and the first half of 2003 time period, with labor market conditions showing more significant improvement over the second half of calendar 2003 and into calendar 2004. Labor market conditions are then expected to mirror the moderating trend to be experienced in the out-years of the forecast.

The primary reasons underpinning the above saw-toothed pattern to activity in the national economy is Economy.com's estimate that the current U.S. recovery is now barely holding on. With consumer, investor and business confidence now slipping, the long-awaited pick up in business spending has been tentative at best, and Economy.com points out that signs are also beginning to emerge that consumers may now be losing faith. Given general global economic weakness – particularly with respect to the economy of Japan – and substantial political instability in the global economy associated with the situation in the Middle East region and with Iraq, it is likely that U.S. economic activity could return to another period of economic decline—a so-called "double-dip recession."

Although that threat should be acknowledged, the Economy.com forecast scenario does not include a "double-dip recession," and it is expected that the U.S. recovery will in fact be able to continue for the next two to three high risk quarters. Economy.com expects that businesses will be able to hold the line on payrolls, and eventually have both the wherewithal and willingness to expand their operations, provided that equity and job markets do not turn negative and consumers hold on to keep on spending just enough to keep the U.S. economy moving forward. Economy.com's U.S. macro scenario also predicts that the recovery will ultimately gain enough traction to evolve into a sustained expansion. However, according to Economy.com, that consolidation is not expected to occur anytime in the near-term future even though some of the corporate profit pre-conditions that are so vital to a turnaround in business capital spending are now slowing coming into place. In fact, Economy.com does not expect that a somewhat normal state of affairs on the business and investor confidence front and growth rates that more typically reflect the true growth potential of the U.S. economy will again re-emerge until about this same time next year in calendar 2003. Table 8 sets forth the specifics of the Economy.com forecast by major macroeconomic variable for the calendar 2002-06 time frame.

More specifically, the Economy.com forecast expects that output (GDP) growth will return to a more healthy 3 to 4 percent annual growth rate range during the later half of calendar 2002, and carry over into the 2003-06 time frame. Job growth is expected to average between 1.0% and 2.3% on an annual basis over the 2003-06 period, following a –0.8% performance in calendar 2002. Inflation-adjusted Personal Income is expected to average between 1.8 percent and 2.5 percent over the 2002-06 forecast period. The Economy.com national forecast also expects that short-term interest rates will remain at historically low levels, especially over the initial stages of the forecast period, and rates are expected to trend upward as the economy strengthens later in calendar 2003 and throughout the later stages of the forecast period. The outlook for overall inflation in the national Economy.com forecast–as measured by the Consumer Price Index (CPI-U) and the chain-weighted GDP deflator–reflects a continued restrained inflation performance over the 2002-06 forecast horizon against a backdrop of the current favorable productivity fundamentals and what looks to be a continued positive outlook productivity growth over the next five years.

The Vermont Economic Outlook: The State's most recent economic forecast revision was updated in October of 2002. This forecast revision now expects that the Vermont economic turnaround will occur during the first quarter of calendar year 2003. Relative to the previous forecasts for Vermont economy, this represents a delay in the anticipated turning point of the Vermont economy from recession to recovery of approximately two calendar quarters. This latest economic forecast revision for the State economy also includes the expectation that the Vermont recovery, once it begins, will likely be on a significantly flatter trajectory than was previously expected. Such a forecast would be a logical expectation as the Vermont economy weathers the negative multiplier effects of the combined nearly 1,300 permanent job reduction at IBM, the State's largest employer, and the broader weakness in labor markets that is still evident across the State. Both of these economic developments, including a more delayed turning point and a more restrained pace of recovery, were fully-considered and incorporated into the consensus revenue forecast revision for the State that was published and approved by the Emergency Board in July of 2002.

On an average annual basis and relative to the last economic forecast published back in May of 2002, this economic forecast update represents a moderate downward adjustment in most of Vermont's major macro-economic variables over the calendar 2002-05 time period in comparison to the former forecast. Most forecasted macro-variables for calendar 2002, the current calendar year, are relatively unchanged although there is a modest upgrade in real Gross State Product and therefore in Personal Income in that year. Calendar 2003 is projected in this forecast to be somewhat less robust than previously forecast, with calendar 2004 and calendar 2005 generally following suit. It should be noted that the change in the timing of the turnaround that is now expected to occur during the first quarter of calendar 2003 also delays the anticipated full recovery point of the State economy. Because of the double-barreled effect of the later turning point in the Vermont economy for the transition from recession to recovery and the expected slower pace of recovery, the full recovery point for the State to numerically re-capture all of the jobs lost during this recession has slipped to the second quarter of calendar 2004 – three quarters later than expected last May.

Looking at the comparative performance of the major forecasted variables vis-a-vis recent history paints a picture of a somewhat less robust level of activity in the Vermont economy over the next five years. For example, total nonfarm jobs under this revised forecast are forecasted to increase at an annual average rate of 0.7% over the 2001-06 time frame and less than one half of the 2.0% annual average growth rate for nonfarm jobs experienced during the 1991-96 time frame (which included the last half of the State's 1989-92 recession). Gross State Product – adjusted for inflation – is projected under this forecast revision to increase at an annual rate of 2.2%, in comparison to the 4.0% annual average growth rate over the 1996-01 period and just below the 2.5% annual average rate of growth that was experienced during the 1991-96 time frame.

Real Personal Income, defined as personal income adjusted for inflation, is expected to post similar results under this revised forecast. With a projected increase of 2.2% per year over the 2001-06 time horizon, the growth rate in this key personal income indicator is projected to be well below either the 3.7% average annual rate of increase experienced over the 1996-01 period or the 2.4% average annual rate of growth experienced during the 1991-96 time frame. Nominal-dollar Personal Income, is expected to average a 3.9% annual rate of growth per year over the 2001-06 period under this forecast revision, significantly below both the 4.8% average annual rate and 5.6% annual average rate of growth during the 1996-01 and 1991-96 time periods, respectively. Under this revised forecast, manufacturing employment is also expected to experience a significantly poorer relative performance for the time periods examined. Vermont's Factory sector is expected to post a disappointing -1.0% job loss performance over the 2001-06 period, nearly two full percentage points below the +0.8% average annual rates of increase experienced during both the 1996-2001 and 1991-96 time frames. That poor factory sector performance is underpinned by the poorest job growth performance in the Durable Goods category in more than a decade, where the -1.5% average annual job change number over the 2001-06 time period represents a 3.5 percentage point negative turnaround from the +2.0% average annual growth track record of the 1996-01 period.

Looking more closely at prospective labor market developments by quarter, the Vermont economy will likely still be struggling over the final calendar quarter of 2002 (October to December), even as prospects of a turnaround become brighter. First, the majority of the job impact of the closure of the Ames Stores, the job impacts in manufacturing resulting from the latest round of lay off announcements and the residual effects of the IBM job reduction will be experienced in that quarter. Overall job growth in the Vermont economy is not expected to exceed the State's roughly 2.0% long-term growth average until the first quarter of calendar 2004. As a result of this more sluggish pace and delayed nature of Vermont's expected recovery, the State's economy is not expected to complete its employment recovery and make a transition to an expansionary mode until mid-2004, about nine months later than was expected last Spring.

Even with this more restrained outlook for the Vermont economy, the fact that Vermont's economy remains one of the most fundamentally sound state economies in the New England region overall has not changed. Data presented in Tables 5 through 7 show that the State economy and the economy of the Burlington metropolitan area have one of the lowest unemployment rates, and one of the best job growth performances in the region over the last business cycle and the most recent period of economic recessions in the Northeastern region of the United States.

Table 5
Total Unemployment Rate Comparison of Vermont,
Seven Northeastern States and the U.S.

	September 2002	August 2002	September 2001	Change from Last Year
Vermont	4.0%	4.2%	3.8%	0.2%
Connecticut	4.1	4.0	3.6	0.5
Maine	4.1	4.0	4.3	-0.2
Massachusetts	5.2	5.2	4.0	1.2
New Hampshire	4.5	4.7	4.0	0.5
New Jersey	5.3	5.3	4.0	1.3
New York	5.6	5.9	5.2	0.4
Rhode Island	5.0	4.8	4.5	0.5
United States	5.6	5.7	5.0	0.6

Notes: Data are seasonally adjusted and exclude the Armed Forces.

Source: Vermont Department of Employment and Training (2002).

Table 6
Comparison of Unemployment Rates in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Annual Average % 1996	Annual Average % 1997	Annual Average % 1998	Annual Average % 1999	Annual Average 2000	Annual Average % 2001	Average % Jan. 2002 - August 2002
Connecticut							
Bridgeport	6.7%	5.4%	4.0%	3.9%	2.7%	4.1%	4.7%
Hartford	6.1	5.3	3.5	3.3	2.4	3.3	3.8
New Haven	5.8	5.2	3.3	3.1	2.3	3.2	3.5
Stamford	3.7	3.2	2.2	2.1	1.4	2.4	2.8
Waterbury	6.5	5.9	4.0	3.8	2.8	4.6	5.1
Maine							
Lewiston-Auburn	6.9	5.8	4.6	4.1	3.2	4.0	3.8
Portland	2.9	2.8	2.3	2.1	1.8	2.3	2.4
Massachusetts							
Boston	3.7	3.4	2.8	2.5	2.2	3.2	4.2
Brockton	5.2	4.7	3.7	3.5	3.0	4.0	4.8
Fitchburg	5.4	5.0	4.0	4.1	3.5	5.0	6.4
Lawrence	5.6	5.1	4.7	4.4	3.7	5.3	6.9
Lowell	4.2	3.9	3.4	3.2	2.6	4.1	5.6
New Bedford	8.6	7.6	6.6	6.0	5.1	6.0	6.6
Pittsfield	5.4	5.3	4.4	4.2	3.5	4.1	4.6
Springfield	4.5	4.2	3.8	3.6	3.1	3.8	4.4
Worcester	4.0	3.7	3.2	3.1	2.8	3.9	5.0
New Hampshire							
Manchester	3.6	2.7	2.6	2.4	2.5	3.4	4.2
Nashua	4.2	2.8	2.8	3.0	2.9	4.2	5.4
Portsmouth	3.7	2.8	2.4	2.2	2.3	3.0	3.8
Rhode Island							
Providence	5.6%	5.6	4.9	4.3	4.0	4.8	4.7
Vermont							
Burlington	3.0%	2.7	2.3	2.0	1.9	2.6	3.7

Note: Labor Market Area Unemployment Rates are subject to sporadic revisions, depending on the state.
Furthermore, these areas are also subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: Federal Reserve Bank of Boston.

Table 7
Comparison of Total Non-Agricultural Employment in New England's Largest Metropolitan Areas
(Numbers in Thousands)

City	March 1989	August 2002	Change in Number of Jobs March 1989 to August 2002	March 1989 to August 2002 % Change
Connecticut				
Bridgeport	199.8	181.0	-18.8	-9.4%
Hartford	657.2	602.6	-54.6	-8.3
New Haven	265.0	263.2	-1.8	-0.7
Stamford	200.6	203.5	2.9	1.4
Waterbury	89.1	84.5	-4.6	-5.2
Maine				
Lewiston-Auburn	41.2	45.7	4.5	10.9
Portland	131.4	158.0	26.6	20.2
Massachusetts				
Boston	1,911.5	2,014.1	102.6	5.4
Brockton	90.6	98.6	8.0	8.8
Fitchburg	53.9	51.8	-2.1	-3.9
Lawrence	143.6	160.9	17.3	12.0
Lowell	115.3	130.0	14.7	12.7
New Bedford	69.2	64.7	-4.5	-6.5
Pittsfield	45.1	42.0	-3.1	-6.9
Springfield	265.9	263.8	-2.1	-0.8
Worcester	224.4	237.1	12.7	5.7
New Hampshire				
Manchester	95.2	105.4	10.2	10.7
Nashua	91.3	99.5	8.2	9.0
Portsmouth	109.4	124.4	15.0	13.7
Rhode Island				
Providence	518.4	541.7	23.3	4.5
Vermont				
Burlington	87.4	108.4	21.0	24.0

Note: Labor Market Area Unemployment Rates are subject to sporadic revisions, depending on the state.
Furthermore, these areas are also subject to infrequent geographic redefinition.
Data are seasonally adjusted.
Source: Federal Reserve Bank of Boston and the U.S. Bureau of Labor Statistics.

Economic Forecast -- Summary Data

The opinions set forth in this section are provided by Economic & Policy Resources, Inc. based upon such firm's independent evaluation of economic information and trends in the State of Vermont. The firm serves as a consultant to the State of Vermont with responsibilities to matters of economic trends and projections as well as revenue estimates.

The following table sets forth comparative statistics and assumptions corresponding to the current short-term economic outlook for the State and national economies. The U.S. data correspond to the assumed macroeconomic environment for the Vermont economy during the period. The Vermont statistics present the State-specific detail for the Vermont economic forecast.

Table 8
Calendar Year Forecast Comparison: United States, New England and Vermont

	Actual					Forecast				
	1997	1998	1999	2000	2001	2002[1]	2003	2004	2005	2006
Real Output (%Change)										
U.S Gross Domestic Product	4.4	4.3	4.1	3.8	0.3	1.8	4.0	3.2	3.1	3.2
New England Gross Domestic Product	5.4	5.4	5.8	6.2	0.1	0.1	1.4	3.2	2.5	3.1
Vermont Gross State Product	4.4	4.0	4.6	5.3	1.9	1.1	1.6	3.2	2.2	2.8
Non-Farm Employment (%Change)										
U.S.	2.6	2.6	2.4	2.2	0.0	(0.8)	1.0	2.3	1.6	1.3
New England	2.2	2.2	2.0	2.4	0.2	(0.8)	0.2	1.8	1.3	0.9
Vermont	1.5	2.0	2.3	2.5	0.1	(0.9)	0.5	1.9	1.2	1.0
Personal Income[2] Change-$96										
U.S.	4.0	5.9	3.2	5.2	1.3	1.8	1.8	2.4	2.3	2.5
New England	4.2	5.6	3.6	5.7	1.1	0.4	0.3	1.6	1.9	1.8
Vermont	3.2	6.0	3.0	3.4	2.6	1.5	1.0	2.0	2.0	2.1
Unemployment										
U.S.	4.9	4.5	4.2	4.0	4.8	6.0	6.1	5.7	5.4	5.2
New England	4.4	3.5	3.3	2.8	3.7	4.5	4.8	4.5	4.2	4.1
Vermont	4.0	3.4	3.0	2.9	3.6	4.0	4.3	4.1	4.0	3.9

Sources: Economy.com (U.S.) New England Economic Project October 2002 Forecast (VT).
[1] 2002 values in this table reflect projected rates as of October 2002 for income concepts.
[2] Personal income is in constant 1996 dollars.

Table 8 shows that Vermont's weaker performance in calendar 2002 and calendar 2003 relative to the U.S. economy, and in labor market data relative to the New England region. In calendar 2004, Vermont still trails the performance of the national economy in the variables listed, but posts a relatively stronger performance than the New England regional averages for that year in all variable categories. Calendar 2005 and 2006 are projected to be mixed, with Vermont still trailing the projected U.S. growth rate averages in all variables, but generally posting a stronger performance than the New England region. Unemployment in Vermont is expected to remain at an elevated level versus the late-1990s, but be significantly below both the U.S. and New England averages over the entire 2002-06 forecast period.

Composition of the Vermont Economy

Tables 9 and 10 include data that profile the earnings and employment levels by major industry for the State of Vermont. The earnings data cover the calendar year 1998-2001 period (Calendar year 2001 being the latest year where complete annual average data are available). Employment data by industry are provided for the 1998-2001 calendar year period (2001 being the latest year where annual average data are available).

The data show that manufacturing remains one of the State's most important sectors, representing an estimated 15.9% of all non-farm employment in 2001 (versus 16.5% of non-farm jobs in 2000) and an estimated 19.8% of earnings in 2001 and 19.5% of earnings in 2000. Other important parts of Vermont's economic base include: services (at 31.1% of 2001 non-farm employment and 30.7% in 2000) representing just under one-third of total earnings (at 31.0% of 2001 earnings and 29.5% of earnings in 2000), and trade (at 22.7% of 2001 non-farm employment and 22.8% of non-farm jobs in 2000) representing 15.5% of earnings in 2001 and 14.7% of 2000 earnings. Relative to the U.S. economy, Vermont's economy relies somewhat more heavily on manufacturing and retail trade. At the same time, it has a slightly lower dependence on sectors such as finance, insurance and real estate, and the transportation-public utilities sector for its employment and earnings.

Table 9
Total Earnings By Industry
($ millions)

1998-2000
State of Vermont

	1999		2000		2001	
		Percent of Total		Percent of Total		Percent of Total
Farm:	140.8	1.3%	142.1	1.2%	133.3	1.1%
Non Farm						
Industry:						
Manufacturing	2,051.1	19.1	2,250.5	19.5	2,278.0	18.9
Mining (Quarrying)	25.7	0.2	27.9	0.2	28.3	0.2
Contract Construction	771.8	7.2	827.2	7.2	869.3	7.2
Wholesale Trade	507.2	4.7	539.4	4.7	568.6	4.7
Retail Trade	1,078.5	10.0	1,151.1	10.0	1,220.4	10.1
Finance, Insurance and Real Estate	611.7	5.7	634.8	5.5	686.2	5.7
Transportation, and Public Utilities	565.8	5.3	592.6	5.1	617.0	5.1
Services	3,149.2	29.3	3,393.1	29.5	3,569.8	29.6
Total Industries	8,901.8	82.9%	9,558.7	83.0%	9,970.9	82.8%
Government:						
Federal Civilian	317.4	3.0	350.6	3.0	356.2	3.0
Federal Military	64.93	0.6	68.5	0.6	72.3	0.6
State and Local	1,312.4	12.2	1,392.7	12.1	1,512.4	12.6
Total Government	1,694.7	15.8	1,811.8	15.7	1,940.9	16.1
Total Non-Farm	10,596.5	98.7	11,370.5	98.8	11,911.8	98.9
Total Farm and Non-Farm	10,737.3	100.0%	11,512.6	100.0%	12,045.1	100.0

Notes: Total may not add due to rounding. Total Earnings is comprised of wages and salaries, other labor income and proprietor's income.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 10
Vermont Non-Agricultural Employment by Industry
1998-2001

	1998		1999		2000		2001		U.S. 2001	
	Jobs	Percent Of Total	Jobs	Percent Of Total	Jobs	Percent Of Total	Jobs	Percent Of Total	Jobs	Percent Of Total
Manufacturing	47,900	16.8%	47,900	16.4%	49,250	16.5%	47,600	15.9%	17,695	13.4%
Durable Goods	32,650	11.5%	32,650	11.2%	34,100	11.4%	33,100	11.1%	10,636	8.1%
Non-durable Goods	15,250	5.4%	15,250	5.2%	15,150	5.1%	14,500	4.9%	7,059	5.4%
Construction	13,800	4.8%	14,500	5.0%	14,750	4.9%	14,800	5.0%	6,685	5.1%
Transportation & Public Utilities	12,450	4.4%	12,300	4.2%	12,400	4.2%	12,250	4.1%	7,065	5.4%
Wholesale Trade	12,350	4.3%	12,600	4.3%	12,700	4.3%	12,450	4.2%	6,776	5.1%
Retail Trade	52,950	18.6%	54,400	18.7%	55,400	18.5%	55,350	18.5%	23,522	17.9%
Finance, Insurance & Real Estate	12,200	4.3%	12,500	4.3%	12,400	4.2%	12,650	4.2%	7,712	5.9%
Services	86,400	30.3%	89,050	30.5%	91,750	30.7%	92,900	31.1%	40,970	31.1%
Government	46,200	16.2%	47,650	16.3%	49,400	16.5%	50,505	16.9%	20,933	15.9%
Other	600	0.2%	600	0.2%	650	0.2%	195	0.1%	401	0.3%
Total Non-Farm	284,850	100.0%	291,500	100.0%	298,700	100.0%	298,700	100.0%	131,759	100.0%

Notes: Totals may not add due to rounding.

Source: U.S. Bureau of Labor Statistics and Vermont Department of Employment & Training, Current Employment Statistics Series.

Largest Employers

The Vermont economy reflects a mix of manufacturing, tourist-based, higher education, services (including health care, business, and private sector higher education services), and trade employers. As of December 31, 2001, the State's largest private employer is International Business Machines, Inc., a global manufacturer of semiconductor and related devices, with a total of more than 6,000 workers on its payroll. Fletcher Allen Health Care is the State's second largest private employer, with more than 3,000 but less than 6,000 workers. Businesses with more than 1,000 employees in the State reflect a mix of retail (Martin's Food Stores, Price Chopper Stores), financial institutions (Chittenden Trust Company), manufacturers (General Electric Company, Ethan Allen, Inc.), wholesale trade (C&S Wholesale Grocers), and higher education (Middlebury College).

Income Levels and Income Growth Performance

The following two tables include data relating to the trends in the rate of total personal income growth for Vermont, New England and the nation as a whole over the calendar year 1988-2001 period. Table 11 indicates that on an average annual basis, total personal income in Vermont has increased by 5.3% per year over the 1988-2001 period, as compared to the 5.1% average for the New England region and a 5.6% national average rate of growth during the same period. According to the U.S. Department of Commerce data presented in Table 12, Vermont's per capita personal income in calendar 1988 was $16,197, or 93.1% of the U.S. average of $17,403. By calendar 2001, Vermont's per capita personal income had risen to $28,594, 93.8% of the U.S. average of $30,472. Vermont's growth rate in per capita personal income was 4.4% in calendar 2001, significantly above both the national average per capita personal income growth rate of 2.4% during calendar 2001 and the 2.6% growth rate for New England as a whole for that same year. These same data show that despite the State's recession in calendar 2001, Vermont's rate of per capita personal income growth was the highest among the six New England states in 2001.

Table 11

Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
1988-2001
($ in millions)

	State of Vermont		New England		United States	
Calendar Year	Total Personal Income	% Growth	Total Personal Income	% Growth	Total Personal Income	% Growth
2001	$17,530	5.0%	$520,440	3.2%	$8,621,022	3.7%
2000	16,691	7.4	504,311	9.7	8,351,511	7.3
1999	15,543	5.5	459,770	5.2	7,784,137	5.4
1998	14,738	7.2	437,134	7.1	7,418,497	7.1
1997	13,751	5.2	408,230	6.3	6,928,454	6.0
1996	13,072	5.0	384,143	5.4	6,538,103	5.6
1995	12,448	4.6	364,297	4.9	6,192,235	5.3
1994	11,897	4.8	347,347	4.3	5,878,362	5.0
1993	11,356	3.2	333,179	3.3	5,598,446	4.1
1992	10,999	6.5	322,470	5.0	5,376,622	6.1
1991	10,332	1.4	307,012	1.4	5,065,416	3.7
1990	10,192	4.3	302,738	3.5	4,885,525	6.6
1989	9,769	9.7	292,629	6.9	4,582,429	7.7
1988	8,904	--	273,666	--	4,255,000	--

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 12

Growth in Nominal Dollar Per Capita Personal Income for Vermont, New England and the United States 1988-2001

	State of Vermont		New England		United States	
Calendar Year	Per Capita Income	% Growth	Per Capita Income	% Growth	Per Capita Income	% Growth
2001	$28,594	4.4%	$37,115	2.6%	$30,472	2.4%
2000	27,376	6.5	36,167	8.9	29,770	6.8
1999	25,705	4.7	33,226	4.4	27,880	3.7
1998	24,547	6.6	31,829	6.4	26,893	5.8
1997	23,026	3.3	29,924	3.8	25,412	3.1
1996	22,019	4.2	28,340	4.8	24,270	4.4
1995	21,135	3.7	27,040	4.3	23,255	4.1
1994	20,379	3.7	26,928	3.8	22,340	3.7
1993	19,657	2.4	24,984	2.8	21,539	2.8
1992	19,204	5.7	24,299	4.9	20,960	4.7
1991	18,171	0.7	23,175	1.3	20,023	2.3
1990	18,047	3.0	22,884	3.1	19,572	5.4
1989	17,517	8.1	22,200	6.1	18,566	6.7
1988	16,197	--	20,915	--	17,403	--

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment Statistics

Vermont had a labor force of 344,000 on an average annual basis in 2001, of whom 329,000 were employed and 15,000 or 4.3% were unemployed. Vermont's 4.3% unemployment rate in that year compared favorably with the 5.9% unemployment rate for the nation overall and a 4.4% average unemployment rate for the New England region. The following table sets forth recent comparative trends in labor force, employment, and unemployment rates for the Vermont, New England and U.S. economies from 1990 to 2001, and calendar 2002 year-to-date.

Table 13

Average Annual Employment and Unemployment Rate

	State of Vermont			New England	United States
Year	Labor Force (in thousands)	Employment (in thousands)	Unemployment Rate %	Unemployment Rate %	Unemployment Rate %
2002[(1)]	346	333	3.8%	4.2%	5.8%
2001	344	329	4.3	4.4	5.9
2000	335	323	3.6	3.7	4.6
1999	332	322	3.0	2.8	4.0
1998	330	319	3.4	3.5	4.5
1997	327	313	4.4	4.4	5.0
1996	324	309	4.6	4.8	5.4
1995	319	305	4.2	5.4	5.6
1994	315	300	4.7	5.9	6.1
1993	316	299	5.5	6.8	6.9
1992	310	290	6.7	8.0	7.5
1991	304	284	6.4	8.0	6.8
1990	304	289	5.0	5.7	5.6

Sources: Vermont Department of Employment and Training (Vermont);
Federal Reserve Bank of Boston (New England and United States).

1 Average for January-July period.

Transportation

Highway. Vermont's highway system includes 320 miles of interstate routes, over 2,312 miles of toll-free State highways, and approximately 11,320 miles of supporting roads.

Rail. The State of Vermont owns 392 rail corridor miles out of a total of 747 rail corridor miles within the State. The State-owned rail miles are operated by Vermont Rail Systems, CSF Acquisition, Inc. and Northern Vermont Railroad (CDAC). At present Vermont Railway, Green Mountain Railroad, Washington County Railroad and Northern Vermont Railroad are servicing freight customers. Other private rail operators that provide freight service in Vermont are New England Central Railroad, St. Lawrence & Atlantic Railroad, and Guilford Rail Systems. State supported Amtrak service includes two passenger trains, the "Vermonter" which operates from Washington, D.C. to St. Albans, Vermont and the "Ethan Allen Express" with service from New York City to Rutland, Vermont. The Vermont Transportation Authority operates the Champlain Flyer, a 13 mile commuter rail, between Charlotte and Burlington.

Transit. Vermont Transit, a Greyhound subsidiary, operates bus routes in many of the major communities. There are 13 public transit providers, who provided an estimated 3.0 million passenger trips each year.

Air. There are 17 public use airports, including 10 State-owned airports and two which are municipally owned, including Burlington International Airport ("BIA"). Burlington International Airport is the sixth busiest airport in New England with thirteen carriers handling approximately one million passengers in calendar 2001.

In addition to Jet Blue's two daily roundtrips to JFK and beyond, there are numerous jet and regional jet connections to Detroit, Chicago, Newark, Cleveland, Boston and Washington, DC from the BIA. Currently, all daily trips except for service to New York's LaGuardia Airport and Washington's Reagan Airport, are served by jet or regional jet aircraft. This configuration is expected to change in February of 2003 given the recently announced decision by US Airways to reduce the number of seats available each day on its Burlington-to-Pittsburgh and Burlington-to-Philadelphia routes. Boeing 737 jet service for those destinations will be replaced by smaller, regional jets that will reduce the number of seats available on US Airways aircraft from 630 per day to 250 seats per day for those destinations. So far in calendar 2002, passenger boardings have increased by approximately 3% to 540,000 emplanements in comparison to calendar year 2001. July 2001 was the highest boarding month in the history of the BIA with over 100,000 passengers served.

The Rutland State Airport, located in mid-Vermont, provides Air Carrier, Air Charter and freight service to the southern half of the State, with US Airways Express providing three daily passenger flights to Boston Logan Airport. Steadily growing freight service is provided by the United Parcel Service and Federal Express; together they carry over one million pounds of cargo a year through the Rutland State Airport. Air Charter operations have grown by over 30% in the last two years.

Utilities

During the past year there have been a number of positive developments, which will contribute to the stability of the electric utility industry in Vermont. In the interest of maintaining stability, Vermont is currently taking a go-slow approach to retail choice. The State is in the enviable position of having in place power commitments continuing for the remainder of the decade allowing time for the maturing of the deregulated markets without being subjected to the growing pains. In addition, significant regulatory settlements of litigation over power costs have benefited most electric utilities in the State, and a financial settlement of the Hydro-Quebec ice storm arbitration has had a positive bearing on the financial health of the electric utilities affected by the outages of 1998.

On July 31, 2002 a consortium of New England utilities—including Green Mountain Power and Central Vermont Public Service Corporation—sold the Vermont Yankee Nuclear Power Plant to Entergy Nuclear of Mississippi for $180 million. The plant serves an estimated 320,000 Vermont electric customers and the Public Service Board found that the sale constitutes a net present value benefit to Vermonters of $263 million to $383 million.

Natural gas is an important source of energy in northwestern sections of Vermont which receive natural gas service through Vermont's connection to the Trans Canada Pipeline system. Expansion of gas distribution systems in Chittenden County continues with additional transmission pipeline loops currently being constructed. Large LPG rail depots are currently under construction at two locations in Vermont. Completion of the depots will increase the quantity of LPG available for distribution.

The Public Service Board is also implementing telecommunications competition for local exchange service providers as directed by the federal Telecommunications Act of 1996. Hearings are being conducted on several issues including interconnection agreements, pricing unbundled elements and arbitration of disagreements between providers. Vermont currently has an extensive telecommunications network. Verizon provides local telephone service to approximately 85% of Vermont access lines while nine other local exchange companies serve the areas of the State not served by Verizon. As of August 2002, 85 telephone companies are authorized to provide local exchange service in competition with Verizon, and an extensive fiber optic network reaches all regions of the State. Mass market broadband services are increasingly available in both urban and rural markets either from incumbent and competitive telephone companies, or from cable companies. Vermont has had a number of years of robust long distance competition, and in-state rates around $.05/minute are available on some plans. Cellular telephone service comes from Rural Cellular, Verizon Mobile and U.S. Cellular, while Nextel, Sprint PCS and Devon Mobile are currently building personal wireless service networks. Vermont has pioneered the use of a state telephone Universal Service Fund to promote key social objectives while supporting competition. A Statewide enhanced “9-1-1” emergency telephone system is now in place throughout Vermont.

STATE FUNDS AND REVENUES

Budget Process

The head of every State department, board, or commission, and any officer or individual in charge of any activity for which funds are appropriated by the General Assembly is required to file with the Commissioner of Finance and Management statements showing in detail the amount appropriated and expended for the current and next preceding fiscal years and the amount estimated to be necessary for such activity for the ensuing fiscal year. The Governor submits to the General Assembly, not later than the third Tuesday of every regular and adjourned session, a recommended budget for appropriations or other authorizations for expenditures from the State Treasury for the next succeeding fiscal year. The General Assembly then enacts into law an appropriation act which must be approved by the Governor before expenditures may be made.

Internal Control System

The State of Vermont operates on a July 1 to June 30 fiscal year. The Department of Finance and Management is responsible for the accounting system of the State and for approving the issuance of payments by the State Treasurer. No disbursements may be withdrawn from the Treasury without a warrant approved by the Commissioner of Finance and Management with the following exception. The amount necessary each year to pay the maturing principal of, and interest on, the State’s outstanding general obligation bonds is required to be included in the annual appropriation bill for the expense of State Government. Interest and maturing principal payments on the State’s outstanding general obligation bonds may be disbursed from the Treasury without a warrant from the Commissioner of Finance and Management if they become due before an appropriation for the payment has been made. Interest and maturing principal payments on the State’s outstanding general obligation notes may be disbursed from the Treasury without a warrant from the Commissioner of Finance and Management.

Generally Accepted Accounting Principles

Since fiscal year 1997, the State of Vermont’s Comprehensive Annual Financial Report (CAFR) has contained comparative governmental funds’ financial statements prepared on a GAAP basis. The following is selective comparable financial information based on audited financial data for specific governmental funds for fiscal years ending June 30, 2001 and 2000 as contained in the fiscal year 2001 CAFR.

For 2001, the General Fund had a $172.8 million total fund balance as compared to a $169.1 million total fund balance in 2000, an increase of over $3.7 million. The unreserved undesignated portion of this fund balance increased from $55 million in 2000 to almost $86.6 million in 2001. This increase occurred even after the Budget Stabilization Reserve in the General Fund had been fully funded. However, the Legislature’s designated

"Reservation for General Fund Surplus" had been decreased by $36.3 million to $4.3 million for fiscal year 2001. The Agency of Human Services' "Reservation for Human Caseload Management" was increased by approximately $2 million to a total of $18 million for fiscal year 2001.

For 2001, the Transportation Fund had a total fund balance of $15.4 million, a decrease of $18.3 million compared to the 2000 balance. The Budget Stabilization Reserve in the Transportation Fund is fully funded and the unreserved undesignated portion of this fund balance was $6.5 million at the end of fiscal year 2001 which represents a decrease of $18.3 million as compared to fiscal year 2000.

For 2001, the Education Fund's total fund balance increased from $33.2 million in 2000 to $35.4 million in 2001. The Budget Stabilization Reserve in the Education Fund increased from $18.8 million in 2000 to almost $21 million in 2001 while the unreserved undesignated portion of this fund balance decreased from $14.42 million in 2000 to $14.38 million in 2001.

For 2001, the Federal Fund's total fund balance increased from $20.3 million in 2000 to almost $25.6 million, an increase of approximately $5.3 million. The unreserved undesignated portion of this fund balance increased $3.5 million from $20.0 million in 2000 to $23.5 million in 2001.

Governmental Accounting Standards Board (GASB)'s Statement No. 34

The State of Vermont will implement the financial accounting and reporting requirements required under GASB Statement No. 34 ("GASB 34") in its fiscal year 2002 Comprehensive Annual Financial Report (CAFR). In addition to the individual fund statements (with some modifications) presented in previous years, the State will prepare government-wide financial statements that will represent financial information on Vermont taken as a whole. Included in these government-wide statements will be a "Statement of Net Assets" and a "Statement of Activities." These two statements will report financial activity of both the primary government as well as its discretely presented component units. New note disclosures will be added and current notes revised to meet the new requirements of this GASB 34 statement.

Under GASB 34, funds will be categorized as either governmental fund types, proprietary fund types or fiduciary fund types. The reporting of the fund statements will be modified in several ways. First, the funds in each fund type will be categorized as either a major fund or a minor fund based on GASB 34 requirements. The major funds' activities will be reported in their own individual column on the financial statement while the minor ones will be combined and reported in a column entitled "all other funds." Funds previously reported as non-expendable trust funds will be reported as permanent funds while funds previously reported as expendable trust funds will be reported as enterprise funds, special funds, or fiduciary type – private purpose funds, depending on the characteristics of the fund.

GASB 34 also requires a "Management Discussion and Analysis" (MD&A) report that compares and analyzes Vermont's primary government's current and previous fiscal years' activities with emphasis on the current year. This report is required to be presented in an easily readable format and will be based upon known facts, decisions, and conditions. It is required to be included in the CAFR as "Required Supplementary Information" (RSI), and will give agency and departmental financial managers an opportunity to present both short and long term analyses of their areas of expertise.

Vermont will also report its general capital (fixed) assets in fiscal year's 2002 CAFR for the first time. (Proprietary funds have been reporting their capital assets and associated depreciation.) GASB 34 also requires that State infrastructure assets, which are defined as long-lived capital assets, be included as part of the capital assets reporting. All capital assets will be reported at either their historical cost if adequate records are available to ascertain that value, or at a "best estimate" of their historical cost. They will be depreciated over estimated useful lives and will be reported net of their accumulated depreciation.

Although the State plans to release its CAFR for fiscal year 2002 by March 2003, it is possible that the implementation of GASB 34's requirements together with the implementation of a new statewide financial management information system (see below) may result in a delay in the release of the fiscal year 2002 CAFR.

New Statewide Financial Management Information System

The State has implemented a new statewide financial management information system called VISION. VISION, which stands for Vermont's Integrated Solution for Information and Organizational Needs became operational on July 2, 2001. Its mission is to provide the State with a fully integrated financial management information system that meets the business processing and informational requirements of departments, agencies, the Governor and legislators, as well as supports sound financial and programmatic management and strategic planning. The new VISION system represents a significant technology change and difficulties, to be expected with any change of this magnitude, have been experienced during the first year of implementation that have delayed reconciliation of system accounts. The State is continuing its work to address issues that have arisen, including making modifications to the system, cleaning up software bugs, and addressing end-user errors in using the system.

Fund Structure

The State's financial statements are structured into three fund types and one account group. The general characteristics of the fund types and account group are as follows. The four major operating funds are the General Fund, the Transportation Fund, the Education Fund and the Federal Revenue Fund.

Governmental Fund Types:

General Fund: By act of the General Assembly, the General Fund is established as the basic operating fund of the State. The General Fund is required to be used to finance all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any other designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "General Fund Operating Results" and "Budget Stabilization Reserve." Debt service requirements on General Fund bonds and notes are paid from the General Fund.

Transportation Fund: Revenues of this fund are used for expenditures associated with overall construction and maintenance of the State's transportation system, state police, debt service requirements on Transportation Fund bonds and notes (which include the State Transportation and Highway bonds and notes) and certain other functions of government. The principal sources of revenue in this fund are motor fuel taxes, purchase and use taxes, license and permit fees for motor vehicles, and reimbursements from the federal government for highway programs. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year. See "Transportation Fund Operating Results" and "Budget Stabilization Reserve."

Education Fund: Established by the Equal Educational Opportunity Act of 1997 and effective July 1, 1998, the revenues of this fund finance the State's support of K-12 public education, as well as property tax reform. The principal sources of revenue in this fund are the statewide property tax, the local share property tax, revenues from the state lotteries, the tax on telecommunications services, revenues raised by an increase in brokerage fees, an increase in the meals and rooms tax from 7% to 9%, a 4 cent increase in the gasoline tax through June 30, 1998 and a reduced rate thereafter, an increase in the motor vehicles purchase and use tax from 5% to 6%, among others, and funds appropriated or transferred by the General Assembly. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

Federal Revenue Fund: All federal grant receipts are recorded in this fund, except for those federal funds specifically earmarked for transportation or fish and wildlife purposes. Grants of the latter types are recorded in the State's Transportation Fund and Fish and Wildlife Fund, respectively. Major categories of expenditure within this fund are from federal reimbursement for various health, education and welfare programs, the State counterpart of which is reflected in the General Fund.

Fish and Wildlife Fund: Receipts are restricted by statute and can only be used for fish and wildlife purposes. The principal sources of revenue are license fees and federal grants.

Special Funds: These funds account for proceeds of specific revenues not categorized above that are legally restricted to expenditures for specific purposes. Included in the Special Fund category are the Healthcare Trust Fund and the Health Access Trust Fund.

Capital Project Funds: These funds account for capital improvement appropriations which are or will be primarily funded by the issue of State bonds. Separate Bond Funds are maintained as corollaries to both the General Fund and Transportation Fund.

Proprietary Fund Types

Enterprise Fund Types: These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the State's intent is that the costs of providing goods or services to the public be financed or recovered primarily through user charges; or (b) where the State has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds: These funds are used to account for the financing of goods and services provided by one State department or agency to other State departments or agencies, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types

These funds account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These funds include Pension Trust Funds (see "PENSION PLANS"), Nonexpendable Trust Funds, Expendable Trust Funds and Agency Funds.

Account Group

General Long Term Debt: Long-term liabilities to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group and includes those long-term liabilities for the retirement of general obligation bonds and notes, and compensated absences.

For further information on State funds and accounting, see Appendix A.

State General Fund Revenues

The principal sources of State General Fund revenues are personal and corporate income taxes, a general State sales tax, and a meals and rooms tax.

The following is a brief discussion of the principal General Fund revenue sources (amounts are on a cash basis and are unaudited for fiscal year 2002):

Personal Income Tax: From January 1, 1994 through December 31, 1999, Vermont personal income tax was calculated as 25% of a taxpayer's federal income tax liability. On January 1, 2000, the percentage of a taxpayer's federal income tax liability was reduced to 24%. For the tax years 2001 and 2002, Vermont personal income tax liability will be calculated from tables designed to substantially maintain the State's tax rate that was in effect prior to the passage of the federal tax cut effective in 2001. During the 2002 meeting of the Vermont General Assembly, the temporary measure for tax years 2001 and 2002 was made permanent utilizing the same tax rate maintenance approach as under the 2001 to 2002 temporary change. Personal income taxes accounted for an estimated $403.3 million (after adjustment for fiscal year 2001 personal income tax refunds paid in fiscal year 2002) or 43.0% of total estimated refunds-adjusted gross General Fund revenues in fiscal year 2002.

Sales and Use Tax: Vermont has a general State sales tax of 5%. Effective July 1, 1996, fuel used in manufacturing is exempt from the sales and use tax. Among the other items excluded from the State's sales tax are food, medicine and manufacturers' equipment. Effective September 1, 1997, a telecommunications sales tax of 4.36% was implemented to fund in part Act 60. Beginning July 1, 1998, all revenues from the telecommunications sales tax were deposited directly into the Education Fund. Over the past two fiscal years, minor exemptions for certain clothing and footwear purchases were implemented. In fiscal year 2002, the sales and use tax and telecommunications tax accounted for an estimated $229.6 million of gross General Fund revenues, or 24.5% of the estimated refunds-adjusted gross General Fund revenues in fiscal year 2002. In terms of revenues available to the General Fund, net sales and use tax collections totaled $214.7 million, 25.7% of net refunds-adjusted General Fund receipts for fiscal year 2002.

Meals and Rooms Tax: A tax of 7% was imposed on taxable meals and the rent of each occupancy effective July 1, 1993. The meals and rooms tax imposed on liquor consumed on the premises is 10%. Effective October 1, 1997, the meals and rooms tax was increased from 7% to 9% to further fund Act 60. Beginning on July 1, 1998, 20.0% of total collections in this tax source began to be allocated to the Education Fund. In fiscal year 2002, the meals and room tax accounted for $99.2 million or 10.6% of estimated total refunds-adjusted gross General Fund revenues. After transfer to the Education Fund of the statutory percentage of gross receipts, the $80.9 million in net General Fund revenues represented 9.7% of net refunds-adjusted revenues available to the General Fund in fiscal year 2002.

Corporate Income Tax: Effective January 1, 1997, the net income of corporations is taxed at the greater of $250 or the following rates: first $10,000 -- 7.0%; next $15,000 -- 8.1%; next $225,000 -- 9.75%; excess over $250,000 -- 9.75%. Pursuant to Act 60, the corporate tax was increased 1.5 percentage points (retroactive to January 1, 1997) to provide partial funding for this new initiative. On July 1, 1998 pursuant to this legislation $8.2 million of the fiscal year 1998 receipts were transferred to the Education Fund. Beginning on July 1, 1998, 19.0% of total collections in this tax source were allocated to the Education Fund. For the tax years beginning in 2002, Vermont made adjustments to its corporate income tax designed to substantially maintain the State's tax rate that was in effect prior to the changes in depreciation expenses included in the federal stimulus legislation effective in 2001. Corporate income taxes generated $32.0 million or 3.4% of total estimated refunds-adjusted gross General Fund revenues in fiscal year 2002. After transfer to the Education Fund of the statutory percentage of gross receipts, the $25.9 million in net General Fund revenues represented 3.1% of net refunds-adjusted revenues available to the General Fund in fiscal year 2002.

Insurance Tax: Insurance companies are taxed at a rate of 2% per annum on the gross amount of premiums and assessments written in the State, exclusive of premiums for reinsurance. Additionally, captive insurance companies are taxed based on the volume of premiums written from a rate of .004 to .00075. Insurance taxes accounted for $36.2 million or 3.9% of total estimated refunds-adjusted gross General Fund revenues in fiscal year 2002.

Cigarette and Tobacco Products Tax: A tax is imposed on all cigarettes held in the State by any person for sale. The tax rate was 20 cents per pack until July 1, 1995 when it was increased to 44 cents per pack. Similarly, the tobacco products tax went from 20 to 41 percent of the wholesale price on July 1, 1995. The incremental tax increase is statutorily transferred to the Health Access Trust Fund. Cigarettes are also subject to the general State sales tax. Beginning July 1, 2000, all cigarette and tobacco tax receipts are deposited into the Health Care Access Trust Fund. During the 2002 Vermont General Assembly, a 75 cent per pack tax rate increase, to be phased in over two years, was passed. Cigarette tax receipts were an estimated $24.5 million in fiscal year 2002, approximately 2.6% of total estimated refunds-adjusted gross General Fund revenues. For fiscal year 2003, the consensus forecast anticipates $44.8 million in receipts.

Telephone Receipts and Property Tax: In addition to the general corporate income tax, a tax of 2.37% is levied on net book value of personal property in the State of persons or corporations owning or operating a telephone line or business within the State. Businesses with less than $50,000 in receipts may elect to pay the gross receipts tax of 5.25% in lieu of the income and property tax. Fiscal year 2002 telephone receipts and property taxes generated $10.4 million or 1.1% of total refunds-adjusted General Fund revenues.

Real Property Transfer Tax: A tax is imposed upon the transfer by deed of title to property located within the State. The rate is 0.5% on the first $100,000 of a purchaser's principal residence and 1.25% on the amount over $100,000. For a non-principal residence, the rate on the entire amount is 1.25%. Beginning in fiscal year 2000, 33% of the receipts from the property transfer tax will be retained by the General Fund, and the remainder is deposited directly into the Housing and Conservation Trust Fund and the Municipal and Regional Planning Fund. Previously, all receipts were deposited into the General Fund and transfers were made from the General Fund to these other special funds. The gross property transfer tax for fiscal year 2002 generated $25.0 million or 2.7% of total refunds-adjusted gross General Fund revenues. After statutory transfers, net receipts totaled $9.9 million or 1.2% of refunds-adjusted net revenues available to the General Fund.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2002, liquor taxes generated $10.6 million or 1.1% of total refunds-adjusted gross General Fund revenues. That total represented 1.3% of net refunds-adjusted revenues available to the General Fund in fiscal year 2002.

Beverage Tax: Beverage taxes are levied on bottlers and wholesalers of malt and vinous beverages at the rates of $0.265 and $0.55 per gallon, respectively. Effective June 1, 1991, vinous beverages are also subject to the general State sales tax. Beverage taxes accounted for $5.0 million or 0.5% of total refunds-adjusted gross General Fund revenues in fiscal year 2002. That total represented 0.6% of net refunds-adjusted revenues available to the General Fund in fiscal year 2002.

Estate Tax: Transfers of estates are taxed in an amount equal to the federal credit for State death taxes. The estate tax accounted for $13.9 million or 1.5% of refunds-adjusted gross General Fund revenues in fiscal year 2002. That total represented 1.7% of net refunds-adjusted revenues available to the General Fund in fiscal year 2002.

Electric Energy Tax: Electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 are assessed a tax of 3.5% of the value thereof less an adjustment for local taxes as appraised by the Commissioner of Taxes. The tax raised $2.8 million in fiscal year 2002 or 0.3% of total refunds-adjusted gross General Fund revenues. That total represented 0.3% of net refunds-adjusted revenues available to the General Fund in fiscal year 2002.

Bank Franchise Tax: The State levies a bank franchise tax based on average monthly deposits. The tax rate on such deposits was increased from .004% to .0096% pursuant to Act 60 Property Tax Reform legislation. Beginning on July 1, 1998, 58.3% of total collections in this tax source are allocated to the Education Fund. Gross bank franchise tax revenues totaled $5.3 million or 0.6% of total refunds-adjusted gross General Fund revenues in fiscal year 2002. After transfer to the Education Fund of the statutory percentage, the $2.2 million in net General Fund revenues represented 0.3% of net refunds-adjusted revenues available to the General Fund in fiscal year 2002.

Lottery: The State of Vermont commenced lottery operations in fiscal year 1978. Effective in fiscal year 1986, the State began participating in a Tri-State Lottery with New Hampshire and Maine. The Tri-State lottery does not replace Vermont's individual lottery games, but is run in addition to the existing games. Pursuant to Act 60, all net lottery receipts began to be deposited in the Education Fund effective July 1, 1998. During fiscal year 2002, lottery revenues totaled $13.3 million or 1.4% of estimated refunds-adjusted gross General Fund revenues.

Other Taxes: In addition to the taxes discussed above, the State levies taxes and other minor fees that are credited to the General Fund. Other taxes and fees generated $40.6 million or 4.3% of total refunds-adjusted gross General Fund revenues in fiscal year 2002. After transfer to the Education Fund of the statutory receipts, net revenues in this category last fiscal year were $20.9 million in net General Fund revenues or 2.5% of net refunds-adjusted revenues available to the General Fund in fiscal year 2002.

Education Fund; Act 60 - Property Tax Reform

In 1997 Vermont passed comprehensive legislation aimed at responding to a Supreme Court decision holding its system of funding education unconstitutional. The resulting law, known as Act 60, mandated substantial change to both the focus and funding of K-12 education. The focus of the system is on academic outcomes for children incorporating standards based on performance and assessment.

Prior to Act 60, each school district funded educational expenditures within that district and established and collected school taxes from the population of the district. The State gave aid through a foundation formula to help those towns that could not raise sufficient revenues. The funding approach enacted in Act 60 provides for a block grant from the State to each school district on a per student basis commencing in fiscal year 1999. The law provides for the amount of the grant to grow based on the inflation index each year. The block grant is funded through a uniform Statewide property tax (described below) as well as with significant State appropriations. Additionally, the State shares with the local school districts in the costs of certain programs, such as special education and transportation, through categorical grants for such purposes. Individual school districts can raise additional funds above those provided by the State through "local share" taxes that are levied at the local level. However, a school district that votes to spend more than the block grant and imposes a higher tax rate, must share the increased revenues with all other districts. In this way, school districts with relatively strong property values per pupil will share resources with less wealthy districts.

Prior to the enactment of Act 60, school tax rates were determined by each school district and ranged from as little as $.125 per $100 of listed property value in one school district to over $3.00 per $100 in another, adjusted for inequities in town grand lists of property values. Act 60 created a Statewide school tax at a uniform rate of $1.10 per $100 that was implemented over a three-year transitional period that began in fiscal year 1999. In addition to creating the Statewide tax rate to specifically support education, Act 60 increased several broad-based taxes and committed the increases to the Education Fund. These increases were implemented in fiscal year 1999 and are estimated to raise $70.8 million in fiscal year 2003. In addition, starting July 1, 1998, all lottery receipts are dedicated to the Education Fund.

Act 60 eliminated the school tax on machinery and equipment. Combined with the tax rate reductions accomplished in many communities, this saved businesses in Vermont an estimated $28 million (1997 dollars).

In addition to the business property tax relief provided to industrial and commercial owners, Act 60 provided that any household with income of less than $75,000 will not pay more than 2% of that income for the Statewide school taxes. In addition, the local school tax is based on a percentage of the statewide tax so residents receive help with the state and local school tax based on their income. If a household's income is over $75,000, the taxes on the first $160,000 of Homestead value are used in the calculation. In 1998, the "income sensitivity" benefit was paid through a one-time "prebate" at the beginning of the school year. The General Assembly has since changed the program to allow prebate payments to taxpayers 30 days prior to their taxes being due locally. With 62 separate first payment due dates, the State is able to spread the prebate payments out over more time to better manage cash flow. For tax year 2001, the Tax Department has to date distributed benefits to 111,000 property owners. The average preliminary benefit has amounted to $579. Taxpayers may be eligible for additional benefits if their income is under $47,000 and the total tax (municipal and school) after prebate exceeds between 3.5% and 5.0% of their income based on a sliding scale.

The Statewide property tax is billed and collected at the local level. A netting process is followed, with the State paying any net amounts due the towns in three payments while the towns pay net amounts due the State in two equal payments.

As part of the transition to the school funding methodology under Act 60, the State guaranteed the yield of local share taxes for fiscal years 2000 and 2001, assuring participating communities of a certain level of resources for spending above the block grant amount regardless of the pool of communities that spend above the block grant amount. Since fiscal year 2001, the State has committed available resources from within the Education Fund to subsidize the yield of local share taxes without any guarantee. The design of the pool insulates the State to a substantial degree. Communities that spend above the block grant amount are the participants in the pool and are responsible for raising those monies. The yield mechanism is designed to have a dampening effect on spending. If a property wealthy community spends less, they contribute less to the pool and the yield goes down for all communities. If a property poor town spends more without some corresponding increase in wealthier towns, the yield also goes down. As towns reduce the yield they would have to increase their own local share tax rate to maintain the same spending level.

State Transportation Fund Revenues

The following is a brief discussion of the major sources of Transportation Fund revenues and the amount derived from each source in fiscal year 2002 (amounts for fiscal year 2002 are on a cash basis and are unaudited).

Purchase and Use Tax: A purchase and use tax that is equivalent to the sales tax rate is assessed on the "taxable cost" (purchase price or value, less allowance for resale value of buyer's used vehicle) upon first registration of the motor vehicle. Effective August 1, 1997, the Purchase and Use Tax was increased from 5% to 6% pursuant to Act 60 property tax reform legislation. Beginning on July 1, 1998, 16.7% of total collections in this tax source began to be deposited directly into the Education Fund. Effective July 1, 2000, the $750 ceiling on trucks over 6,100 lbs., agricultural vehicles, school buses, trailers, and motorcycles was increased to $1,100. In fiscal year 2002, this tax accounted for $76.6 million or 34.9% of total gross Transportation Fund tax revenues and fees. After the statutory transfer of receipts to the Education Fund, revenues totaled $63.8 million in fiscal year 2002, representing 32.5% of net revenues available to the Transportation Fund in that fiscal year.

Motor Vehicle Fees: A registration fee is collected on all motor vehicles and trailers. The amount is determined by the type, size, weight, and function of the vehicle. Driver's license fees are also included in this category as well as miscellaneous registration and license fees. During the 2002 session, the Vermont General Assembly passed legislation that generally increased all motor vehicle fees effective July 1, 2002. That action is expected to add approximately $8.5 million to motor vehicle fee revenues in fiscal year 2003 and approximately $8.8 million in fiscal year 2004. In fiscal year 2002, motor vehicle fees accounted for $47.5 million, representing 21.6% of total gross Transportation Fund tax revenues and fees and 24.2% of net revenues and fees available to the Transportation Fund in that fiscal year.

Motor and Diesel Fuel Taxes: Effective August 1, 1997, pursuant to property tax reform legislation, gasoline distributors are taxed at a rate of nineteen cents per gallon sold, a 4 cent per gallon increase above the previous rate. Beginning on July 1, 1999 (and thereafter), 16.0% of total gasoline tax collections will be allocated to the Education Fund. In fiscal year 2002, the motor fuel tax accounted for $63.1 million or 28.7% of the total gross Transportation Fund tax revenues and fees and $52.6 million or 26.8% of net fees and revenues available to the Transportation Fund in that year. Diesel tax is collected from dealers, distributors, and users. When purchased at the pump the diesel tax is seventeen cents per gallon. For diesel users who pay based on reported miles driven, the rate is twenty-six cents. Effective July 1, 2000, the point of collection for the diesel fuel tax was changed under H.188 of the 2000 Legislative Session to be collected at the pump in order to improve compliance. In fiscal year 2002, the diesel fuel tax accounted for $16.6 million or 7.6% of total gross Transportation Fund tax revenues and fees and 8.5% of net revenues and fees available to the Transportation Fund in that fiscal year.

Other Taxes and Other Revenue: These categories include all remaining sources of revenue for the Transportation Fund. Some of the items are a 5% tax on short-term car rentals, title fees, overweight permit fees, air and rail revenue, cab card fees, and revenue from fines and penalties. As part of legislation enacted during the 2002 legislative session, this category of revenues is also expected to increase by an estimated $1.2 million in fiscal year 2003 and $0.6 million in fiscal year 2004. In fiscal year 2002, these other taxes and revenues accounted for $15.9 million or 7.2% of total gross Transportation Fund tax revenues and fees and 8.1% of net revenues available to the Transportation Fund in that fiscal year.

Federal Receipts

In fiscal year 2001, the State received approximately $865.0 million from the federal government. This amount represented reimbursement to the State for expenditures for various health, welfare, educational, and highway programs, and distributions of various restricted or categorical grants-in-aid. The fiscal year 2002 federal receipts, when finalized and audited, are expected to be approximately $941.5 million. The fiscal year 2003 Appropriations Act, as passed, anticipates $976.3 million in federal receipts.

Federal grants normally are restricted to some degree, depending on the particular program being funded, on matching resources by the State. The largest categories of federal grants and reimbursements in fiscal year 2002 were made in the areas of Human Services, $620.5 million (preliminary); Transportation, $150.9 million (preliminary); Education, $80.8 million (preliminary); and Natural Resources, $33.9 million (preliminary).

Tobacco Litigation Settlement Fund

According to the Master Settlement Agreement with tobacco companies, Vermont's expected and actual receipt of settlement funds are as follows (in millions):

	Expected	Actual
Fiscal year 1999 and 2000	$36.23	$33.21
Fiscal year 2001	28.47	24.68
Fiscal year 2002	34.18	31.00
Fiscal year 2003	34.51	29.33*
Fiscal year 2004	28.80	24.48*

*estimated

Pursuant to the Agreement, the expected settlement amounts were adjusted for inflation and the effect of any decreases in the sale of tobacco products to the base year. To date, these have accounted for a 13% decrease.

In fiscal year 2000, the Vermont legislature established a special Tobacco Litigation Settlement Fund to be administered by the State Treasurer. Payments under the Agreement are deposited in the Tobacco Litigation Settlement Fund. For fiscal year 2003, the Legislature appropriated $17.25 million from such Fund (the same as fiscal years 2001 and 2002) to healthcare services and $6.721 million to programs in the Health and Education departments for tobacco enforcement, prevention and education programs. Additionally, $1.9 million was appropriated to substance abuse and youth protection programs in the Agency of Human Services. The remainder of the receipts is earmarked for the separately established Tobacco Investment Trust Fund, a trust established to eventually endow the education and prevention programs. Such remaining receipts were transferred to the Tobacco Investment Trust Fund at the end of fiscal years 1999, 2000 and 2001. The receipts remaining at the end of fiscal year 2002 were not transferred to the Tobacco Investment Trust Fund but were instead retained in the Tobacco Litigation Settlement Fund and will be transferred to the General Fund and used to offset the projected budgetary deficit in fiscal year 2003. The trust balance at the end of fiscal year 2002 was $24.6 million.

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS

Fiscal Year 2000

Vermont finished fiscal year 2000 with a total of $894.17 million in General Fund revenues. With total appropriations of $854.76 million and $5.62 million committed to a Human Services Caseload Reserve, and after using the undesignated surplus from fiscal year 1999, the operating surplus for 2000 was $50.55 million. Of the $854.76 million total, $798.51 million was base appropriations and $50.73 was for one-time expenditures. Base appropriations represented a 4.5% increase over the previous year while total General Fund revenues grew at 6.3%. Of the surplus $2.5 million was transferred by the legislature to the Education Fund, nearly $7.5 million was added to designated reserves, and $40.58 million was carried forward as undesignated for fiscal year 2000 but committed to one-time expenditures in fiscal year 2001. Those one-time expenditures included debt reduction, improved communications systems for Public Safety, information systems for colleges and the Tax Department, safety equipment for local fire departments and many other items. The undesignated amount carried forward was to create a reserve for school construction. The School Construction Reserve amounted to $28.99 million.

Fiscal year 2000 Transportation Fund revenues totaled $193.74 million. With previous year balances and transfers the total available for fiscal year 2000 was $198.52 million. With appropriations of $187.51 million, the fund had an operating surplus of $11.01 million, of which $2.43 million was allocated as follows: $1.17 million to a multi-modal project reserve; $0.77 million for transfer to other funds; and $0.49 million added to the Budget Stabilization Reserve.

The Education Fund, created as a part of Vermont's education finance reform contained in Act 60, ended the year with an undesignated surplus balance of $16.62 million. Operating results in fact left a negative balance of $18.87 million. Negative operating balances had been anticipated and as part of the implementation of Act 60 the legislature provided for an undesignated balance (mostly from general fund surplus transfers) to be available for covering the deficit. In addition to the remaining undesignated balance, the Education Fund also has a Budget Stabilization Reserve, which started fiscal year 2000 at $1 million, but ended the year with a reserve balance of $18.81 million.

Fiscal Year 2001

Fiscal year 2001 finished in Vermont with General Fund revenues totaling $905.75 million. Combined with $11.59 million undesignated from the previous year the State had a total of $917.34 to cover appropriations of $880.69 leaving an operating surplus of $36.65 million. Base appropriations were $835.58 million with one-time expenditures totaling $45.61 million. The surplus was designated by the General Assembly as follows: transfers to other funds ($17.15 million), reserves ($3.16 million), debt avoidance through the payment of capital expenditures ($12.0 million) and $4.34 million was carried forward undesignated.

Vermont counts tax refunds against General Fund revenue before revenues are accounted for. Due to extraordinary delays in refunding in fiscal year 2001 as a result of implementation and processing delays, the State, to maintain comparative values, reduced 2001 General Fund revenues by $33.39 million and held those funds in reserve for payment of refunds in fiscal year 2002. The actual cost of refunds appropriately assigned to fiscal year 2001 was $29.34 million. The balance, $4.05 million, was made available and spent in fiscal year 2002.

Transportation Funds for fiscal year 2001 totaled $194.29 million. With transfers and prior years' surpluses the total available for transportation purposes was $208.38 million. The original appropriation of $199.27 million was increased for extraordinary winter maintenance costs to $203.31 million leaving an operating surplus of $5.07 million which was allocated for a variety of purposes including an increase in the Budget Stabilization Reserve of $0.09 million for a total Budget Stabilization Reserve of $10.6 million at the end of fiscal year 2001. There was no undesignated reserve in the Transportation Fund at the end of fiscal year 2001.

The Education Fund, as in previous years, was expected to operate at a deficit, though at a declining rate. For fiscal year 2001, Education Fund "gross" receipts* of $926.42 million were offset by $934.9 million in "gross" expenditures*. The operating shortfall was $8.48 million compared to $24.81 million in fiscal year 2000 and $27.34 million in fiscal year 1999. The Education Fund was carrying an undesignated balance of $10.69 million which after being applied to the shortfall allowed an additional $2.19 million to move to the Budget Stabilization Reserve, keeping it at the statutory maximum allowed. The Budget Stabilization Reserve in the Education Fund held $21.00 million at the end of fiscal year 2001 and there was $0.02 million in undesignated reserves.

Fiscal Year 2002

Fiscal Year 2002 General Fund revenues were originally estimated to be $913.09 million when first projected by consensus revenue forecasts in July, 2001. Vermont revisited and reestablished consensus numbers twice more through the fiscal year as the economy and State revenues showed signs of weakness. Targets were set in November of 2001 and lowered again in January of 2002. With each review and adjustment to the revenue there was also a review and downward adjustment to the State's appropriation level. The January General Fund forecast was established at $866.6 million. With surpluses carried forward from fiscal year 2001, direct applications, and miscellaneous adjustments total revenues anticipated to be available were $893.6 million. Preliminary year-end General Fund results indicate final total revenues available of approximately $862.1 million.

* In order to reduce transactions between the State, towns and school districts, state funds collected at the local level were left in local treasuries and "netted" against obligations the State had to local school districts. "Net" operating statements for the Education Fund only showed the funds that actually flowed through the State treasury. "Gross" operating statements provide a better view of State spending for education in Vermont.

Appropriations for fiscal year 2002 were adjusted as forecast revenues were reduced during the year. The Governor implemented two separate rescissions in the fall of 2001 totaling $17.06 million. Additionally, contingent appropriations were cancelled by virtue of the lower revenue estimates, and legislation was passed to finalize fiscal year appropriations at $872.1 million, down from $893.44. The budget also required that $19.45 million be transferred to the Transportation and Education Funds. Preliminary year-end results indicate a General Fund operating deficit of $10.05 million and with the additional transfers, a total deficit of $29.5 million. The deficit was erased by the General Fund Stabilization Reserve Fund, leaving a balance of $17.86 million in reserve (consisting of $13.52 million in the Stabilization Reserve and $4.34 million in unallocated reserves). Vermont also has a General Fund reserve of $18.05 million known as the Human Services Caseload Reserve to address unexpected pressures caused by caseload growth due to economic conditions. To date, Vermont has not used and does not anticipate current use of the Caseload Reserve.

The Transportation Fund Revenues for fiscal 2002 were also adjusted downward early in the fiscal year though the consensus forecast in January indicated a slight recovery from some of the downward pressure. In fact, the Transportation Fund preliminary year-end results indicate that Transportation revenues recovered completely and will end in surplus allowing the State to commit to a modestly more aggressive paving and maintenance program than first thought to be possible. Estimated to bring in $192.1 million, the preliminary year-end results indicate a $10.01 million operating surplus. Transfers and allocations reduce the unallocated amount to $5.94 million to be carried into fiscal year 2003. An additional estimated $1 million was added to the Transportation Fund Budget Stabilization Reserve to create an estimated total reserve balance of $9.9 million.

For fiscal year 2002, "gross" Education Fund receipts were $972.41 and "gross" expenditures of $984.65, resulting in an operating deficit of $12.24 million. An operating deficit had been projected in the Education Fund for fiscal year 2002 since early in fiscal year 2001. As part of a multi-year plan, the State decided it would rely on the Education Fund Stabilization Reserve to cover such deficit and anticipated that the reserve would be restored in the following two years. At one time the projected deficit was estimated to be as much as $14.26 million. The deficit was covered by the Education Fund Stabilization Reserve, leaving a balance of $14.36 million in the Education Fund Stabilization Reserve at the end of fiscal year 2002. Current forecasts project a balance in the Education Fund Stabilization Reserve at the end of fiscal year 2003 of $14.36 million and continue to support the statutory 5% reserve being restored in fiscal year 2004.

The Tax Department, which experienced processing issues related to the implementation of a new software application for personal income tax processing, has successfully implemented a multi-faceted strategy to virtually eliminate the problems of timely processing it experienced in fiscal year 2001. Processing refund checks is averaging less than 48 hours including the April 15 filing time and most refund processing was accomplished within 14 days with the exception of those received within the final days of the filing deadline. Interest paid on delayed refunds has been reduced by 75% compared to fiscal year 2001.

Fiscal Year 2003 General, Transportation and Education Funds to Date

Vermont, by statute, establishes a consensus revenue forecast each July and the following January. On July 10, 2002, the Emergency Board met to consider the forecast and agreed to a General Fund revenue forecast of $852 million for fiscal year 2003, which represented a reduction over the estimates made when the budget was being prepared earlier in 2002. In January of 2002, available General Fund revenues in fiscal year 2003 had been projected to be $890.5 million. Additionally, the Legislature had approved legislation that would generate approximately $7 million of new revenues to account for those revenues lost due to Federal Tax law changes. The Legislature had then passed a budget of $898.2 million. At the same time, the Legislature had anticipated that official forecasts might be reduced and provided broad authority for the Governor to reduce appropriations authority in the Appropriations Act to maintain a balanced budget. This authority allowed the Governor to prepare a plan involving reductions of spending as well as redirecting funds from areas not needed to support the General Fund requirements.

The shortfall in the General Fund for fiscal year 2003, without the rescission authority and the resultant plan, was projected to be $38.63 million. The Governor developed and presented a plan to the Joint Fiscal Committee to erase the shortfall through a series of transactions and budget reductions. The plan was submitted to the Joint Fiscal Committee on August 12, 2002 and the final approval was given on August 23, 2002. Under the plan, surplus carried forward in the Transportation Fund from fiscal year 2002 and better than expected

Transportation Fund estimates were applied to fiscal year 2003 appropriated transportation programs allowing $6.4 million to be transferred to the General Fund. Similarly, the continued strong performance in the real estate market is projected to allow the State to realize an estimated $2.5 million more in Property Transfer Tax receipts than previously expected. The State appropriates most of its tobacco settlement funds to Medicaid health programs and to tobacco education and prevention programs. There is, however, a total of $9.2 million not so appropriated from tobacco settlement funds between fiscal year 2002 and fiscal year 2003 that the Legislature specifically set aside to help address the shortfall in the General Fund. The rest of the shortfall is projected to be met with reductions in General Fund appropriations totaling $18.63 million and reductions in expenditures from other funds of $1.92 million. The funds saved from the appropriation reductions in other funds will be transferred to the General Fund. The plan is intended to prevent the State from needing to use the General Fund Budget Stabilization Reserve in fiscal year 2003.

The General Fund through November 2002 is performing slightly better than the consensus cash flow expectations of the Legislature and the Administration despite the slowdown in the State's economy and a "correction" month for receipts in November following October's dramatically upbeat month. Over the first five months of fiscal 2003, General Fund receipts have been supported by stronger than expected personal income withholding tax receipts, a strong performance by the State's consumption taxes, and higher than expected estate tax receipts. These receipts have been partially off-set by higher than expected refund activity in both the Corporate Income and Personal Income taxes over the same five month period. In total, cumulative General Fund receipts through the month of November are $ 4.0 million ahead of the level expected in its cumulative consensus cash flow target.

In the Transportation Fund, total receipts continue to run significantly ahead of expectations through the month of November. A significant part of that positive receipts performance has been attributed to the stronger than expected motor vehicle sales and associated registration receipts over the period. In addition, Transportation Fund receipts also have been supported by stronger than expected fee revenues from a number of other sources not directly associated with increased motor vehicle sales. The contribution of those fee revenues has so far in this fiscal year exceeded the positive revenue contribution related to increased motor vehicle sales activity. Despite the recent slowdown in motor vehicle sales activity, current projections for the Transportation Fund show total receipts are on a course that will support the appropriations approved for fiscal 2003. This reflects current accumulated positive revenue results to-date over the first five months of the State's fiscal year and the continued positive performance through the month of November of those other key non-motor vehicle sales dependent revenue sources in the Transportation Fund.

Reversions to the Education Fund of unexpended appropriations from fiscal year 2002, carry forward of some appropriations into fiscal year 2003, and a reduction in the costs of State-placed students all contribute to an improving operating statement in the Education Fund. Given the new revenue estimate, set against the appropriations approved by the Legislature, it is projected that there will be no need to use the Education Fund Stabilization Reserves in fiscal year 2003. The Education Fund Budget Stabilization Reserve is projected to meet the statutory 5% level in fiscal year 2004.

Fiscal Year 2003 General Fund Results to Date

July 1, 2002 – November 30, 2002
(Unaudited)

	Revenue Estimate[1]	Revenue Collections
Personal Income Tax	$164,550,900	$164,981,862
Sales and Use Tax	92,587,100	93,017,706
Corporate Income Tax	8,173,600	5,233,804
Meals and Rooms Tax	36,606,200	37,133,133
Property Transfer	4,726,600	4,903,778
Other Revenues	33,989,200	39,379,879
Total	$340,633,600	$344,650,162

1 Official Revenue Estimates as of July 10, 2002.

Fiscal Year 2003 Transportation Fund Results to Date

July 1, 2002 – November 30, 2002
(Unaudited)

	Revenue Estimate[1]	Revenue Collections
Gasoline Tax	$23,007,100	$23,161,384
Diesel Tax	6,521,000	5,821,034
Purchase and Use Tax	24,775,700	25,655,531
Other Taxes	995,600	1,007,827
Motor Vehicle Fees	19,601,100	19,961,352
Other Revenues	5,157,400	6,451,389
Total	$80,057,900	$82,058,518

[1] Official Revenue Estimates as of July 10, 2002.

Fiscal Year 2003 Education Fund Results to Date

July 1, 2002 – November 30, 2002*
(Unaudited)

	Revenue Estimate[1]	Revenue Collections
Corporate Income Tax	$1,917,300	$1,227,682
Meals and Rooms Tax	8,282,300	8,470,783
Bank Franchise Tax	1,625,800	1,335,415
Lottery	5,982,800	5,984,954
Gasoline Tax	5,809,700	5,381,416
Motor Vehicle Purchase & Use Tax	4,599,900	4,630,754
Telecommunications Tax	4,955,300	5,143,426
Other Revenues	1,040,700	1,082,430
Total	$34,213,800	$33,256,860

[1] Official Revenue Estimates as of July 10, 2002.
* Excluding property taxes, which are collected at the local level with net payments to or from the State made later in the year.

Budget Stabilization Reserves

The 1987 Legislature initially established the General Fund Budget Stabilization Reserve to "reduce the effects of annual variations in State revenues upon the budget of the State by retaining surpluses in General Fund revenues." Under current law, Budget Stabilization Reserves have been established within the General Fund, the Transportation Fund, and the Education Fund.

Act No. 61 of the 1997 Legislative session amended both the General Fund and Transportation Fund budget stabilization laws by stipulating that the respective reserves shall consist of 5% of the prior year budgetary appropriations and further stipulated that in any fiscal year if the General Fund or Transportation Fund is found to have an undesignated fund deficit as determined by generally accepted accounting principles, the applicable Budget Stabilization Reserve shall be used to the extent necessary to offset that deficit. This was done to reflect the State's change to reporting its financial condition in accordance with generally accepted accounting principles.

The Transportation Fund Budget Stabilization Reserve at June 30, 2001 was $8.882 million, while the General Fund Budget Stabilization Reserve was $43.019 million for the fiscal year ending June 30, 2001. The statutory provisions for maintaining a Budget Stabilization Reserve are based on a percentage of prior year appropriations. The Education Fund is the receipient of a large General Fund appropriation each year. The reserve for the amount of the fund based on the percentage of appropriation to the Education Fund is considered to be part of the General Fund Budget Stabilization Reserve and such amount is not taken into consideration when calculating the

Education Fund Budget Stabilization Reserve. At the end of fiscal year 2001 the Budget Stabilization Reserve in the Education Fund was full to the statutory maximum of $20.999 million.

To balance fiscal year 2002, the State of Vermont utilized the Budget Stabilization Reserve in the General Fund and in the Education Fund. The preliminary General Fund shortfall is estimated to be $29.50 million. After the use of $29.50 million on deposit in the General Fund Budget Stabilization Reserve, this will leave a total of General Fund reserves of $35.91 million, $13.52 million in the Budget Stabilization Reserve, $4.34 million in unallocated reserves and $18.05 million in the Human Services Caseload Reserve. The balance in the unallocated reserve was transferred to the General Fund Budget Stabilization Reserve as part of the Governor's plan to reduce the FY 2003 projected deficit, bringing the total for that Budget Stabilization Reserve to $17.86. The Transportation Budget Stabilization Reserve was not spent and in fact will have an additional estimated $1.01 million added to it based on fiscal year 2002 year-end results. The Education Fund had a fiscal year 2002 deficit that was anticipated at the beginning of the year and was covered by an estimated $7.68 million from the Education Fund Reserve resulting in a remaining balance of $14.36 million in the Education Fund Budget Stabilization Reserve. This amount is less than was planned at the beginning of the year. The statute requires that the Legislature plan to rebuild the Education Fund Reserve. Current projections anticipate maintaining current reserves in fiscal year 2003 and a full 5% reserve at the end of fiscal year 2004.

As described above, the Governor has proposed actions designed to prevent the State from needing to use the General Fund Budget Stabilization Reserve in fiscal year 2003. It is not anticipated that amounts on deposit in the Transportation Fund Budget Stabilization Reserve or the Education Fund Budget Stabilization Reserve will be expended in fiscal year 2003.

Financial Summaries

Following are (i) summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2000 through 2002, and budgeted operating results for fiscal year 2003 (reflecting appropriations approved by the Legislature as proposed to be adjusted in the Governor's deficit reduction plan currently under consideration) for the primary operating funds of the State, the General Fund, the Transportation Fund, and the Education Fund, (ii) a General Fund Comparative Statement of Operations from fiscal year 1997 through 2001 presented on a GAAP basis, (iii) a Transportation Fund Comparative Statement of Operations from fiscal year 1997 through 2001 presented on a GAAP basis, (iv) an Education Fund Comparative Statement of Operations from fiscal year 1999 through 2001 presented on a GAAP basis and (v) a Special Fund Comparative Statement of Operations from fiscal year 1997 through 2001 presented on a GAAP basis.

Neither GAAP basis nor budgetary (cash) basis financial information for Fiscal Year 2002 comparable to the financial information set forth in the Comparative Statements of Operations for the General, Transportation, Special and Education Funds was available for inclusion in this Official Statement. The delay in preparing such statements for Fiscal Year 2002 is a result of the facts that (i) this is the first year in which the State is preparing GAAP-basis financial statements in compliance with GASB 34 (see "STATE FUNDS AND REVENUES – Governmental Accounting Standards Board (GASB)'s Statement No. 34") and (ii) this is the first year in which the State's financial information was processed under its new financial management information system (see "STATE FUNDS AND REVENUES – New Statewide Financial Management Information System"). Preliminary budgetary (or cash) basis financial information for Fiscal Year 2002 comparable to the financial information set forth in the General Fund, Transportation Fund and Education Fund Operating Statements for Fiscal Years 2000-2003 was available and is included in such tables. See also "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Fiscal Year 2002" for a discussion of preliminary operating results for Fiscal Year 2002.

General Fund Operating Statement
Fiscal Years 2000 - 2003
($ in Millions)

	Actual FY 2000	Actual FY 2001	Preliminary Actual FY 2002	As Passed FY 2003
Sources				
Current law revenues	$885.47	$895.85	$837.51	$852.00
Direct applications & reversions	8.70	9.90	20.53	9.17
Additional Property Transfer Tax	-	-		2.50
Campaign Finance to G/F				0.30
Tax refund reserve	-	33.39	4.05	-
Tax refunds paid out	-	(29.34)	-	-
Current year sources	894.17	909.80	862.09	863.97
For approp from prior year surplus reserve	11.14	11.59		-
Prior year unallocated operating surplus	0.00	0.00	0.00	0.00
Total sources	**905.31**	**921.39**	**862.09**	**863.97**
Uses				
Base appropriations	798.51	836.69	858.44	891.83
Pay Act	-	-	4.48	6.38
One-time appropriations	50.73	7.73	9.22	-
Rescission				(18.63)
One-time approps from prior year surplus reserve	-	11.59	-	-
Contingent one-time approps from same yr surplus	-	17.18	-	-
School construction approp from prior yr surplus reserve	11.14	8.00	-	-
Same year reversion: Human Services caseload reserve	(5.62)	(0.50)	-	-
Total uses	**854.76**	**880.69**	**872.14**	**879.58**
Operating surplus (deficit)	**50.55**	**40.70**	**(10.05)**	**(15.61)**
Transfers of surplus (to) / from other funds				
Transportation Fund	-	(5.51)	(13.85)	6.45
Tobacco Settlement				9.20
Transportation Fund Stabilization Reserve	-	(0.64)	-	-
Housing & Conservation Trust Fund	-	(1.00)	-	-
Medicaid Reimbursement Administrative Fund	(0.54)	-	-	-
VHAP Trust Fund	(1.95)	(10.00)	-	-
Education Fund	-	-	(5.60)	-
Total transfers (to) / from other funds	(2.49)	(17.15)	(19.45)	15.65
Transfers of surplus (to)/from Reserves				
Budget Stabilization Reserve	(1.33)	(1.66)	29.50	(4.34)
Human Services Caseload Reserve	(6.15)	(1.50)		-
Reserved for transfer to the Education Fund				
Reserved for transfer to Debt Service	-	(12.00)	-	-
Reserved in GF Surplus Reserve	(40.58)	(4.34)		4.34
Total reserved in the GF	(48.06)	(19.50)	29.50	0.00
Total transfer of surplus	**(50.55)**	**(36.65)**	**10.05**	**15.65**
Unallocated operating surplus	**0.00**	**4.05**	**0.00**	**0.04**
GF Reserves (cumulative)				
Budget Stabilization Reserve	41.36	43.02	13.52	17.86
Human Services Caseload Reserve	16.05	18.05	18.05	18.05
Reserved for transfer to Debt Service	-	12.00	-	-
Reserved in GF Surplus Reserve	40.58	4.34	4.34	-
Reserved for school construction	-	15.21	-	-
Total GF reserve balances	**$97.99**	**$92.62**	**$35.91**	**$35.91**

* Results may not add due to rounding

Transportation Fund Operating Statement
Fiscal Years 2000 – 2003
($ in Millions)

	Actual FY 2000	Actual FY 2001	Preliminary Actuals FY 2002	As Passed FY 2003
Sources				
Current law revenues	$181.30	$185.95	$198.15	$206.40
Direct applications & reversions	0.10	0.12	1.29	0.15
Federal reimbursements	12.34	8.22	8.46	8.30
Current year sources	193.74	194.29	207.90	214.85
For approp from General Fund transfer		5.51	13.85	
For approp from Rutland MMTC Reserve	0.37		1.17	
For approp from FMIS & paving reserve	1.60			
Prior year unallocated operating surplus	2.81	9.75		5.94
Total sources	**198.52**	**209.55**	**222.92**	**220.79**
Uses				
Base appropriations	182.00	203.32	210.46	205.37
Pay Act			2.45	3.35
Rescission				(3.79)
One-time appropriations	3.91			0.24
One-time approps from prior year surplus	1.60			5.94
Contingent one-time approps from same yr surplus				
Total uses	**187.51**	**203.32**	**212.91**	**211.11**
Operating surplus (deficit)	**11.01**	**6.23**	**10.01**	**9.68**
Transfers of surplus (to) / from other funds				
General Fund		0.64		(6.41)
Downtown Fund	(0.40)	(0.80)	(0.70)	(0.80)
Central Garage Fund		(4.45)	(1.99)	(1.99)
VT Recreational Trail Fund	(0.37)	(0.37)	(0.37)	(0.37)
Total transfers (to) / from other funds	(0.77)	(4.98)	(3.05)	(9.62)
Transfers of surplus to Reserves				
Budget Stabilization Reserve	(0.49)	(0.08)	(1.01)	(0.06)
Rutland MMTC Reserve				
Total reserved in the TF (designated)	(0.49)	(0.08)	(1.01)	(0.06)
Total transfer of surplus	**(1.26)**	**(5.06)**	**(4.07)**	**(9.68)**
Unallocated operating surplus	**9.75**	**1.17**	**5.94**	**0.00**
TF Reserves (cumulative)				
Budget Stabilization Reserve	8.80	8.88	9.89	9.95
Rutland MMTC Reserve	-	1.17	-	-
Total TF reserve balances	**$8.80**	**$10.05**	**$9.89**	**$9.95**

* Results may not add due to rounding

Education Fund Operating Statement*
Fiscal Years 2000 - 2003
($ in Millions)

	Actual FY 2000	Actual FY 2001	Preliminary Actual FY 2002	As Passed FY 2003
Sources				
Current law revenues	$71.89	$72.94	$69.80	$71.91
Lottery Revenue	18.93	17.44	16.59	16.60
Statewide Property Tax	395.11	406.73	424.15	453.18
Local Share Property Tax Receipts	131.60	171.09	197.39	226.42
General Fund Appropriations	231.10	238.03	246.36	254.99
Reduction to General Fund appropriation				(9.28)
Medicaid Reimbursement	7.94	8.18	8.26	8.48
Direct Applications/Reversions	2.82	11.79	9.67	3.60
Interest on Fund Balance	0.29	0.22	0.17	0.20
Current year sources	859.68	926.42	972.39	1,026.10
Prior year unallocated operating surplus	38.76	10.69	0.02	0.00
Total sources	898.44	937.11	972.41	1,026.10
Uses				
Base Appropriations	761.28	786.59	809.71	833.97
Adjustments to appropriations				(6.08)
Local Share Payments	116.21	148.31	174.94	198.21
School Construction Assistance	7.00	0.00	0.00	0.00
Total uses	884.49	934.90	984.65	1,026.10
Operating surplus (deficit)	**13.95**	**2.21**	**(12.24)**	**0.00**
Transfer of surplus (to)/from other funds				
General Fund	14.55	0.00	5.60	0.00
Total transfers (to)/from other funds	14.55	0.00	5.60	0.00
Transfer of surplus (to)/from Reserves				
Education Fund Reserve	(17.81)	(2.19)	6.64	0.00
Total reserved in the Education Fund (designated)	(17.81)	(2.19)	6.64	0.00
Total transfer of surplus	**(3.26)**	**(2.19)**	**12.24**	**0.00**
Unallocated operating surplus	10.69	0.02	0.00	0.00
Education Fund Reserve	18.81	21.00	14.36	14.36
Total EF reserve balance	$18.81	$21.00	$14.36	$14.36

Results may not add due to rounding

* Gross Operating Statement. In order to reduce transactions between the State, towns and school districts, state funds collected at the local level were left in local treasuries and "netted" against obligations the State had to local school districts. "Net" operating statements for the Education Fund only showed the funds that actually flowed through the State treasury. "Gross" operating statements provide a better view of State spending for education in Vermont.

General Fund
Comparative Statement of Operations
Fiscal Year Ended June 30,

	1997	1998	1999	2000	2001*
Beginning Total Fund Balance, July 1	$14,208,897	$69,501,942	$90,574,833	$135,894,050	$168,715,018
Revenues					
Cigarette Taxes	14,265,666	12,984,089	12,348,410	11,086,358	0
Corporate Income Taxes	45,710,406	49,756,861	45,036,436	41,041,649	40,758,387
Personal Income Taxes	334,486,597	373,964,809	382,289,256	432,504,512	458,054,886
Liquor Taxes	8,842,633	9,004,075	9,144,471	9,646,435	10,223,167
Meals and Rooms Taxes	64,087,283	78,891,941	70,527,413	75,633,561	80,318,722
Sales and Use Taxes	184,035,381	203,908,202	208,059,689	216,654,031	215,153,183
Insurance Taxes	26,236,902	28,462,338	29,572,338	30,250,712	32,364,599
Telephone Receipts and Property Taxes	9,975,260	9,907,654	9,901,350	10,555,030	9,997,033
Real Property Transfer Tax	13,555,325	15,624,106	17,592,709	6,933,970	7,125,547
Other Taxes	30,522,067	36,962,957	35,686,303	28,274,568	26,709,099
Non-Tax Revenues	44,467,079	42,394,008	21,115,716	23,883,420	23,952,291
Total Revenues	776,184,599	861,861,040	841,274,091	886,464,246	904,656,914
Expenditures:					
General Government	31,947,608	41,409,178	41,275,225	51,225,868	53,499,488
Protection to Persons and Property	37,513,642	39,453,900	42,524,964	46,301,972	54,014,291
Human Services	258,876,616	256,675,031	286,524,461	300,106,286	297,951,849
Employment and Training	266,941	349,377	362,793	415,376	434,471
General Education	232,373,019	244,010,794	31,032,948	54,922,712	42,593,438
Natural Resources	10,376,779	7,681,983	11,650,047	12,974,022	14,977,568
Commerce & Community Development	9,179,847	11,260,793	12,518,242	14,531,052	14,776,725
Debt Service	63,912,626	66,048,525	66,072,948	68,676,128	68,376,276
Property Tax Relief	29,515,801	50,767,576	—	—	—
Total Expenditures	673,962,879	717,657,157	491,961,628	549,153,416	546,624,106
Excess of Revenues Over (Under) Expenditures	102,221,720	144,203,883	349,312,463	337,310,830	358,032,808
Other Financing Sources (Uses)	(46,928,675)	(123,130,992)	(303,993,246)	(304,063,985)	(353,990,092)
Excess of Revenues and other Sources Over (Under) Expenditures and Other Uses	55,293,045	21,072,891	45,319,217	33,246,845	4,042,716
Ending Total Fund Balance, June 30	$69,501,942	$90,574,833	$135,894,050	$169,140,895	$172,757,734

* As restated to reflect reclassification of certain items. See footnote 10 to the financial statements included as Appendix A hereto.

Transportation Fund
Comparative Statement of Operations
Fiscal Year Ended June 30,

	1997	1998	1999	2000	2001
Beginning Total Fund Balance, July 1	$11,400,587	$16,250,419	$18,870,644	$26,963,814	$33,711,980
Revenues:					
Taxes:					
Motor Fuel Taxes	47,920,783	60,793,513	46,295,313	50,830,448	53,392,374
Purchase and Use Taxes	45,466,523	56,514,749	53,289,308	57,930,085	60,776,420
Other Taxes	13,137,755	13,627,775	17,227,629	16,790,076	20,273,282
Non-Business Licenses:					
Motor Vehicle & Registration	30,649,859	33,415,488	33,820,212	35,763,534	33,714,515
Other Non-Business	1,898,641	7,605,493	8,132,605	8,824,074	9,256,341
Federal Grants	79,678,926	111,632,797	131,302,723	138,954,002	139,921,489
Other	19,657,081	12,282,743	13,420,775	13,307,791	12,527,313
Total Revenues	238,409,568	295,872,558	303,488,565	322,400,010	329,861,734
Expenditures:					
General Government				7,891,369	10,219,935
Protection to Persons and Property	25,441,668	24,953,689	27,398,712	28,578,364	31,157,108
Human Services				1,975,842	1,937,167
Employment and Training					
General Education				3,683,400	4,813,343
Natural Resources	485,821	534,532	472,134	972,012	1,089,671
Commerce and Community Development	2,084,296	2,307,524	2,501,710	178,419	158,652
Transportation	189,349,384	228,507,809	245,883,663	266,382,541	294,253,268
Debt Service	4,422,889	3,903,053	3,844,747	3,789,207	3,131,320
Total Expenditures	221,784,058	260,206,607	280,100,966	313,451,154	346,760,464
Excess of Revenues Over (Under) Expenditures	16,625,510	35,665,951	23,387,599	8,948,856	(16,898,730)
Other Financing Sources (Uses)	(11,775,678)	(33,045,726)	(15,294,429)	(2,200,690)	(1,431,584)
Excess of Revenues and Other Sources Over (Under) Expenditures & Other Uses	4,849,832	2,620,225	8,093,170	6,748,166	(18,330,314)
Ending Fund Balance, June 30	$16,250,419	$18,870,644	$26,963,814	$33,711,980	$15,381,666

Education Fund
Comparative Statement of Operations
Fiscal Year Ended June 30,

	1999	2000	2001
Beginning Fund Balance, July 1	$ 0	$39,024,271	$33,225,585
Revenues:			
Statewide Property	$24,185,486	$395,756,613	$407,390,656
Meals and Rooms Tax	17,309,554	16,958,389	18,221,366
Corporate Income Tax	11,448,095	9,627,055	9,560,609
Motor Fuel Tax	13,752,404	10,176,866	10,663,815
Purchase and Use Tax	10,683,451	11,613,835	12,184,468
Other Taxes	22,378,651	33,315,662	34,955,860
Fees	2,185,350	2,336,995	2,568,200
Other	733,567	285,311	218,680
Total Revenues	$102,676,558	$480,070,726	$495,763,654
Expenditures:			
General Education	$386,112,169	$750,114,640	$750,889,881
Excess of Revenues over (Under) Expenditures	$(283,435,611)	$(270,043,914)	$(255,126,227)
Other Financing Sources	$322,459,882	$264,245,228	$257,278,095
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses .	$39,024,271	$ (5,798,686)	$ 2,151,868
Ending Fund Balance.	$39,024,271	$33,225,585	$35,377,453

Special Fund*
Comparative Statement of Operations
Fiscal Year Ended June 30,

	1997	1998	1999	2000	2001
Beginning Total Fund Balance, July 1	$22,551,533	$33,490,727	33,206,066	25,846,275 **	29,698,619***
Revenues:					
Fees	$16,331,578	$16,231,830	$19,218,081	$20,174,407	$21,835,064
Rents & Leases	150,188	181,960	214,157	205,403	182,595
Sales of Services	14,218,913	14,897,241	11,520,476	13,391,894	6,792,879
Sale of Public Power	1,743,688	1,533,988	2,500,757	2,560,404	2,691,056
Interest	4,091,315	4,072,907	3,157,914	3,474,531	3,596,703
Business Licenses	9,748,297	10,067,973	10,989,469	12,286,696	16,897,983
Non-Business Licenses	964,311	1,025,912	1,050,548	1,047,117	1,185,374
Special Assessments	32,449,405	32,401,923	7,206,869	8,917,429	12,430,172
Taxes	28,936,921	29,932,059	54,828,563	62,982,545	80,894,836
Other Revenues	26,717,916	30,959,407	39,394,157	34,977,989	38,150,109
Total Revenues	$135,352,532	$141,305,200	$150,080,991	$160,018,415	$184,656,771
Expenditures:					
General Government	$11,167,385	$16,628,393	$14,066,768	$11,873,245	$14,452,075
Protection to Persons and Property	26,021,884	32,462,434	34,354,329	29,562,348	29,738,807
Human Services	62,658,328	72,848,868	73,208,308	79,249,602	83,806,311
Employment and Training	261,009	3,107,469	2,863,178	3,292,598	2,462,763
General Education	4,148,401	2,491,944	5,596,542	4,258,127	2,549,054
Natural Resources	17,568,191	19,818,560	22,879,845	22,028,506	25,701,101
Commerce and Community Development	1,806,112	1,973,519	2,855,339	3,730,753	3,927,391
Transportation	16,713	41,987	17,938	414,539	12,349
Public Service Enterprises	1,334,119	1,505,472	1,517,976	1,272,134	1,257,308
Debt Service			2,149,407	2,389,948	2,388,348
Other Expenditures	10,273,233	5,630,110	1,296,259	4,971,000	12,132,666
Total Expenditures	$135,255,375	$156,508,756	$160,805,889	$163,042,800	$178,428,173
Excess of Revenues Over (Under) Expenditures	$97,157	$(15,203,556)	(10,724,898)	$(3,024,385)	$6,228,598
Other Financing Sources (Uses)	10,842,037	14,918,895	3,241,036	7,036,235	8,949,684
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$10,939,194	$(284,661)	(7,483,862)	4,011,850	15,178,282
Ending Fund Balance, June 30	$33,490,727	$33,206,066	$25,722,204	$29,858,125	$44,876,901

* These funds account for revenues not deposited in the General Fund, Transportation Fund, Federal Fund, Fish and Wildlife Fund, Capital Project Funds, or Education Fund.

** Reflects restatement and reclassification of certain items in 2000.

*** Fund Balance at 7/1/2001 restated. See note 10 of the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001 attached as Appendix A hereto.

REVENUE ESTIMATES

Act No. 178 of the 1996 Adjourned Session established a mechanism by which the State adopts an official revenue estimate for the current and next succeeding fiscal years. On July 15 and January 15 of each year, and at such other times as the Emergency Board or the Governor deem proper, the joint fiscal office and the Secretary of Administration are to provide to the Emergency Board (comprised of the Governor and the Chairs of the key taxing and spending committees of the Vermont Legislature) their respective revenue estimates for the General, Transportation and Federal Funds for the current and next succeeding fiscal year. Act 60 added the Education Fund to that statute beginning in July of 1998. The Emergency Board, within ten days of receipt of such estimates, is required to determine an official revenue estimate for the current and next succeeding fiscal year.

A consensus revenue forecast for fiscal years 2003 and 2004 was completed in early July 2002 and was approved by the Emergency Board on July 10, 2002 (the "July Forecast"). These estimates reflected a consensus forecast for the U.S. and Vermont economies, the major individual revenue components of each fund, and an overall forecasted level of receipts for the General, Transportation, and Education Funds. The July Forecast incorporated the relevant aspects of the State's latest short-term economic forecast developed as part of the State's participation in the New England Economic Project (N.E.E.P.). The N.E.E.P. organization is a regional economic forecasting group affiliated with leading private sector businesses in New England, major academic and financial institutions in the region, and the Federal Reserve Bank of Boston.

During the July 10, 2002 Emergency Board meeting, it was agreed that the Emergency Board would re-convene in late November of 2002. Based on the results of the fiscal year to-date through October 31, 2002, it has subsequently been decided that a revenue forecast update in November 2002 is not necessary. The July 10, 2002 revenue forecast will therefore be updated by January 15, 2003 in the normal, statutory forecasting cycle.

Personal Income Tax: The State's current consensus forecast for the Personal Income Tax for fiscal year 2002 and fiscal year 2003 is based on: (1) recent experience with capital gains income realizations and the continued softening and volatility in national equity markets, (2) expected job and wage growth over the period (See "State Economy – Economic Activity – The Vermont Outlook"), and (3) recent revenue performance trends. The consensus forecast for the Personal Income Tax was developed in July 2002, and includes a comprehensive assessment of the actions of the 2002 session of the Vermont legislature. Those actions include steps to permanently offset the tax reducing effects of the "Economic Growth and Tax Relief Reconciliation Act of 2001" and the 2001 federal stimulus package (including the offset of the personal income effect so-called bonus depreciation measures). The revised July 10, 2002 consensus revenue forecast expects revenue receipts of $411.8 million in fiscal year 2003 and $429.7 million in fiscal year 2004, reflecting a 2.1% and a 4.3% annual growth rate, respectively.

Sales and Use Tax: The updated consensus forecast for the Sales and Use Tax for fiscal year 2003 is $218.4 million, representing a 1.7% increase for the year. For fiscal year 2004, the revised consensus forecast calls for $227.6 million, an increase of 4.2% over projected fiscal year 2003 collections. This revised consensus forecast reflects a still laboring recovery in the U.S. economy, the New England regional economy, and the Vermont economy, and the attendant weakness in retail activity that would be expected during the first part of fiscal year 2003 under such circumstances. As the economy recovers more typically in fiscal year 2004, growth in this tax source is expected to resume at the more typical level of 3-4% per year. As would be expected with this cyclically sensitive source, sales and use tax receipts should be considered vulnerable to any delay in the State's expected economic recovery in early calendar 2003. The July 10, 2002 consensus forecast also reflects the revenue effects of two recently enacted Sales and Use Tax exemptions, including exemption for individual clothing purchases of less than $110 that took effect on December 1, 1999 (corresponding to fiscal year 2000) and the recently enacted exemption for footwear that took effect on January 1, 2001 (corresponding to fiscal year 2001). The forecast also incorporates the continuation of the State's current 5% tax rate. Receipts from the State's Sales Tax on Telecommunications, which has been imposed since October of fiscal year 1998, are dedicated to the Education Fund as of fiscal year 1999 and are therefore not included in the Sales and Use Tax totals.

Corporate Income Tax: The July 2002 consensus revision forecast for the Corporate Income Tax includes only a modest 13.2% rebound in fiscal 2003 from the 36.7% decline experienced in this tax source during fiscal year 2002. A significant portion of the fiscal year 2002 decline was due to an exceptionally high level of refund activity that was nearly double the previous all time high. Although a significant portion of this heightened refund activity was due to declining corporate profits and other economic circumstances, a significant portion of this elevated corporate refund activity was also due to non-recurring developments during the fiscal year that inflated refunds by approximately $10 million in fiscal 2002 and will not be in effect during fiscal 2003 or beyond. With proper adjustment for these non-recurring circumstances, actual fiscal year 2001 revenues would be significantly lower and fiscal year 2002 revenues would be significantly higher. The July 10, 2002 consensus forecast indicates that fiscal year 2003 revenues will total $29.3 million and fiscal year 2003 revenues will increase to $32.8 million, an 11.9% rate increase from still restrained fiscal 2003 forecasted collections. The new consensus revenue forecast also reflects the overall long-term trend where corporate tax revenues have declined as a percentage of overall General Fund revenues over the past two decades due to increased tax avoidance measures, and increased claims for State tax credits under the incentives program of the Vermont Economic Progress Council. The forecast also reflects State legislation enacted to off-set federal tax reduction measures that were part of the federal "economic stimulus package" in 2001. However, while these off-sets are expected to be roughly revenue-neutral with respect to the federal Corporate Income tax reduction effective in 2001, they are not expected to alter the longer-term declining trend of corporate tax receipts as a percentage of the State's General Fund revenue total.

Meals and Rooms Tax: The combination of the weak economy, the fallout from the events of September 11, 2001 terrorist attacks, and sub-par winter weather during the 2001-02 winter season resulted in Meals and Rooms tax receipts finishing roughly even with the exceptional level of receipts in fiscal year 2001. This forecast revision reflects the fact that the Vermont tourism sector continues to hold up well during this period of economic and equity market weakness as regional markets appear to seek travel destinations that can be reached via ground transportation modes in lieu of air travel. The fiscal year 2003 consensus forecast expects $82.1 million in receipts for the General Fund under this component, corresponding to only a 1.5% rate of increase. Revenues are expected to increase to $84.1 million in fiscal year 2004, representing a 2.5% rate of growth that is more characteristic of recent receipts experience in this tax source.

Other Taxes and Revenues: This category of taxes, fees, and other revenues is comprised of revenue sources ranging from the State's tax on insurance premiums (including captive insurance companies), taxes levied on real estate transfers, taxes on property or revenues levied on telephone companies operating in Vermont, the Estate Tax, and other similar levies and assessments. These tax levies and sources have historically mirrored changes in economic activity in Vermont. The July 2002 consensus forecast for these revenue sources reflect historical collections patterns, special factors and circumstances that have been identified in consultation with contacts in various State departments and agencies responsible for receipts collection and monitoring for these sources. The revised consensus projections reflect the recent federal tax changes in the Estate Tax as it affects Vermont and does not include any revenues from Lottery profits/sales since these revenues are now statutorily transferred to the State's Education Fund as of July 1, 1998. The consensus forecast also includes the results of the 2002 Legislative Session that resulted in a permanent adjustment to off-set the State Estate Tax losses associated with the federal tax relief legislation known as the "Economic Growth and Tax Relief Reconciliation Act of 2001."

The following table compares actual General Fund revenue collections on a fiscal year basis for fiscal year 2001 and 2002. Fiscal year 2001 and 2002 results reflect adjusted totals for extraordinary income tax refunding activity actually attributable to fiscal year 2001.

Sources (Available to the General Fund)	Fiscal 2001	Fiscal 2002	Percentage Change
Personal Income Taxes	$454,256,365	$403,327,238	(11.2)%
Sales & Use Taxes	215,098,509	214,652,957	(0.2)%
Corporate Taxes	40,926,813	25,904,118	(36.7)%
Meals & Rooms Taxes	79,295,580	80,936,998	2.1%
Other Taxes	86,409,662	92,354,184	6.9%
Total Taxes	$875,986,930	$817,175,495	(6.7)%
Non-Tax Revenues	23,913,078	18,900,766	(21.0)%
Total General Fund	$899,900,008	$836,076,261	(7.1)%

SOURCE: Vermont Department of Finance and Management.

The following table reflects General Fund revenue history from fiscal year 2000 through fiscal year 2002 and projected and forecasted revenue amounts for fiscal year 2003 and fiscal year 2004:

General Fund Revenues[1] (Net)
($ in Millions)

COMPONENT	Actual 2000	% Chg.	Actual 2001	% Chg.	Actual 2002	% Chg.	Forecast[2] 2003	% Chg.	Forecast[2] 2004	%Chg.
TAXES:										
Personal Income	$431.7	12.6%	$454.3	5.2%	$403.3	-11.2%	$411.8	2.1%	$429.7	4.3
Sales & Use	216.5	5.3	215.1	-0.7	214.7	-0.2	218.4	1.7	227.6	4.2
Corporate	41.0	-11.3	40.9	-0.1	25.9	-36.7	29.3	13.2	32.8	11.9
Rooms & Meals	75.2	5.7	79.3	5.5	80.9	2.1	82.1	1.5	84.1	2.4
Cigarette[3]	12.3	-3.0	0.0	-100.0	-	-	-	-	-	-
Liquor	9.3	0.4	10.6	12.9	10.6	0.4	10.8	2.0	11.1	2.8
Insurance	30.3	3.0	32.1	5.8	36.2	12.8	37.7	4.2	38.5	2.1
Telephone Receipts	1.2	92.7	1.2	-2.9	0.2	-84.9	0.1	-57.7	0.1	-33.3
Telephone Property	9.1	-0.1	9.2	1.0	10.2	10.8	10.3	1.2	10.5	1.2
Beverage	4.8	2.2	4.8	0.5	5.0	3.1	5.1	1.6	5.2	2.0
Electrical Energy	3.5	-2.3	3.1	-10.8	2.8	-9.9	2.6	-8.3	2.6	1.7
Estate	13.6	-42.0	12.7	-6.2	13.3	4.2	10.6	-20.0	10.3	-2.8
Property Transfer	6.9	9.0	7.0	2.1	9.9	41.6	9.5	-4.8	9.0	-5.4
Bank Franchise	3.5	-1.8	3.7	5.8	2.2	-39.6	2.8	23.9	3.2	15.2
Other taxes	2.8	45.3	2.1	-26.4	2.0	-2.7	2.1	5.2	2.2	4.8
TOTAL TAXES:	$861.7	6.4%	$876.1	1.7%	$817.2	-6.7%	$833.1	2.0%	$866.8	4.0%
OTHER REVENUES:										
Business Licenses	$2.6	-15.9%	$2.5	-3.7%	$2.6	0.5%	$2.5	-2.3%	$2.6	4.0%
Fees	9.4	5.4	9.3	-1.1	8.6	-7.5	8.8	2.0	9.1	3.7
Services	1.3	0.6	1.2	-5.8	1.2	4.0	1.3	2.4	1.3	3.1
Fines, Forfeits	2.4	29.6	1.9	-19.9	2.5	31.0	2.6	2.5	2.7	3.2
Interest, Premiums	7.1	53.4	8.0	12.4	3.4	-57.1	3.1	-9.1	3.5	12.9
Special Assessments	0.4	10.2	0.4	-11.0	0.0	-88.3	0.1	16.7	0.1	20.0
Other	0.7	50.9	0.6	-13.9	0.6	-9.3	0.6	3.1	0.6	3.4
TOTAL OTHER	$23.9	15.9%	$23.9	-0.1%	$18.9	-20.8%	$18.9	-0.4%	$19.8	5.2%
TOTAL GENERAL FUND	$885.6	6.6%	$899.9	1.6%	$836.1	-7.1%	$852.0	1.9%	$886.6	4.1%

1 Prepared on a cash basis and are unaudited.
2 Based on consensus revenue forecast completed in July 2002.
3 As of July 1, 2000, all Cigarette Tax revenues are to be deposited in the Health Care Access Trust Fund.

NM means Not Meaningful

SOURCE: Vermont Department of Finance and Management.

MAJOR GENERAL FUND PROGRAMS AND SERVICES

Human Services [1]

The largest single agency of State Government is the Vermont Agency of Human Services. The Agency was founded in 1971 to oversee the planning and administration of the Departments of Corrections, Health, Developmental and Mental Health Services, Social and Rehabilitation Services, Aging and Disabilities, and Prevention, Assistance, Transition and Health Access (PATH).

The Agency is also responsible for implementing and administering the major federal programs in Vermont such as Medicaid, Temporary Assistance to Needy Families (welfare), and Aid to the Aged, Blind, and Disabled. As a result, 52% of the Agency's budget, $1,185,101,207, is paid with federal receipts.

The budget for Medicaid is the largest in the Agency and the largest single program in State government. For fiscal year 2002 Medicaid expenditures are expected, when fully accounted, to be $696,556,832 with approximately 62% of this amount being supported by federal dollars. This compares to fiscal year 2001 when total Medicaid expenditures were $618,802,515. Included in the Medicaid programs is expanded coverage through the Vermont Health Access Plan (VHAP) for Vermonters approved under a demonstration waiver with the U.S. Department of Health and Human Services. In fiscal year 2002 this program provided healthcare coverage for an average of 34,955 Vermonters per month otherwise uncovered by Medicaid. The average caseload had been budgeted at 32,540 per month. The VHAP program is not an entitlement as Vermont statute allows the program to be managed to the money available. While the State has not had to restrict enrollment, it can manage (freeze or reduce) the caseload.

State government is a prodigious purchaser of pharmaceuticals. As such, the State is responsible for Medicaid patients in nursing homes, mental institutions, correctional facilities, and the State's voluntary programs. The State has been developing several strategies to help reduce the growth rate of pharmaceutical cost. Vermont is developing a multi-state coalition to institute volume purchases, prior authorization protocols, as well as developing management policies to respond to trends and encourage the use of cost effective alternatives. For fiscal year 2003, the State has limited State expenditures in its voluntary pharmaceutical programs to $10,500,000.

Vermont initiated welfare reform legislation in 1994, providing incentives to work, making dependence on Aid to Needy Families with Children (ANFC) benefits transitional and providing increased access to jobs above poverty incomes, job training, and child care. In June of 1995 the ANFC caseload was 27,132. Current caseloads in June of fiscal year 2002 were just 19,614, a total decrease of 46.14%. The average caseload has decreased in the past two years by 12.2%. Recognizing that this trend may turn at some point, Vermont has accumulated a Human Services Caseload Reserve of $18,048,618 in addition to its other Budget Stabilization Reserve funds.

Under the federal welfare reform legislation, know as the Personal Responsibility and Work Opportunity Reconciliation Act, welfare is now distributed through a block grant called Temporary Aid to Needy Families (TANF). Vermont has received TANF funds through fiscal year 2002 at a fixed rate of $47.35 million a year. Unexpended TANF funds continue to be available to the State. Vermont has accumulated $1.5 million of unexpended TANF. Combined with the above-mentioned $18.05 million, Vermont has $19.55 million available for future economic declines and related caseload increases.

Corrections - incarceration, detention, and community supervision of offenders - is consolidated in the Agency of Human Services. Like other states, Vermont has seen significant caseload increases over the last decade. To meet the need Vermont has constructed several new correctional facilities and is currently constructing a new 350-bed facility. Construction costs for this $27 million facility will be paid for partially with the proceeds of Vermont's current and previous bond offerings ($6.5 million), but significantly with $13 million cash set aside from budget surpluses of the past several years. The remainder will be paid for with grants from the federal government.

[1] Expenditures and balances are presented on a cash basis.

From 1990 to 2000 the number of inmates and the total Corrections budget grew dramatically, however in the last 2-3 years such growth has slowed considerably. The Corrections budget for fiscal year 2003 is $85.57 million. That represents an increase of 4.3% over fiscal year 2002. Incarceration within state facilities was constant through 2002 at approximately 1370 inmates and the number of inmates housed in out-of-state facilities remained at 394 through 2002. Vermont has been a pioneer in community corrections and was one of the very first states to establish a system of community reparative boards that have the offender face the community and victims to make reparations at the local level thereby avoiding the need to use the correctional facilities. Recognizing that managing offenders in the community, where they might still be able hold their job and housing, is significantly cheaper than incarceration, the Department of Corrections continues to develop community-based programs.

The sources of Agency of Human Services appropriations for fiscal year 2002 and fiscal year 2003 are as follows:

	Fiscal 2002 Appropriations	Current Law Fiscal 2003 Appropriations
General Fund	$319,397,161	$318,848,472
Federal Funds	579,598,107	609,831,958
Tobacco Settlement	22,625,000	24,160,570
Special Funds	98,940,566	206,493,483
Other Funds	10,423,358	11,510,046
Total	$1,030,984,192	$1,170,844,529

Aid to Municipalities

Significant portions of Vermont's budget are used to support the cities, towns and school districts. The General Fund transfer to the Education Fund for support of K-12 schools is $254.99 million. Additionally the State contributes $20.44 million to the Teacher's Retirement System. Total Education Fund expenditures are $1.04 billion (including the General Fund transfer). Department of Education administration is paid for with General and Federal funds allowing the Education Fund to be spent entirely on direct support of students and reduction of school taxes burdens. Additionally, $5.1 million is distributed to towns to reimburse taxes reduced for land conservation and management programs. More than $52 million is spent each year through the Agency of Transportation on town highway programs.

	Fiscal 2002 Appropriations	Current Law Fiscal 2003 Appropriations
State Aid to Local School Districts	$594,474,446	$601,200,000
Special Education Aid to Local Districts	90,283,405	96,915,179
State Teachers Retirement System Contributions	20,446,282	20,446,282
Town Highway Grants	36,865,751	36,894,889
Total	$742,069,884	$755,456,350

Additionally, the State provides local direct tax support to individual taxpayers through the following programs:

	Fiscal 2002 Appropriations	Current Law Fiscal 2003 Appropriations
Homestead Property Tax Assistance	$79,800,000	$98,087,000
Land Use Reimbursement	4,685,837	5,100,000
Total	$84,485,837	$103,187,000

Higher Education

The State of Vermont provides extensive assistance for programs of higher education through a higher education system that includes three major components. These include direct appropriations to the University of Vermont and the Vermont State College system and support through direct financial aid grants to students by the Vermont Student Assistance Corporation, which also receives an annual appropriation.

	Fiscal 2002 Appropriations	Current Law Fiscal 2003 Appropriations
University of Vermont	$34,182,130	$36,197,999
Vermont State Colleges	20,176,862	21,361,961
Vermont Student Assistance Corporation	15,445,766	16,356,671
Total	$69,804,758	$73,916,631

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 1999 to fiscal year 2003.

General Fund Appropriations by Major Function

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002[1]	Fiscal 2003[2]
General Government	$ 42,207,604	$ 47,037,776	$ 48,366,379	$42,768,232	$33,856,042
Protection to Persons and Property	41,008,708	44,431,909	50,883,810	49,844,089	61,245,160
Human Services	274,651,944	292,277,566	310,214,129	320,708,479	320,284,892
Education	317,271,830	351,839,809	344,176,175	356,196,278	361,728,763
Employment & Training	388,067	1,902,160	411,063	781,260	653,367
Natural Resources	10,662,561	11,180,223	11,927,832	12,458,771	16,186,498
Transportation	---	---	---	---	---
Commerce and Community Development	12,008,070	14,590,992	12,445,039	12,197,467	12,716,688
Other – One-Time[3]	62,151,228	32,383,174	34,685,160	13,227,088	5,951,305
Debt Service	66,976,007	68,904,383	68,073,767	63,959,161	66,958,806
Total Appropriations	$827,326,019	$864,547,992	$881,183,354	$872,140,825	$879,581,521

1 Final, but unaudited.
2 As passed, post rescission
3 One-time appropriations in fiscal years 1999 through 2002.
SOURCE: Vermont Department of Finance and Management.

GOVERNMENTAL FUNDS OPERATIONS

The following table sets forth the total revenues, expenditures and changes in total fund balances for all governmental fund types of the State for fiscal year 1997 through fiscal year 2001 presented on a GAAP basis. Governmental funds include the General, Special, Transportation, Education, Federal and Fish and Wildlife Funds as well as Capital Projects Funds (General Bond Fund and Transportation Bond Fund). See "STATE FUNDS AND REVENUES--Fund Structure."

Neither GAAP basis nor budgetary (cash) basis financial information for Fiscal Year 2002 comparable to the financial information set forth in the All Governmental Fund Types Comparative Statement of Revenues, Expenditures and Changes in Fund Balance was available for inclusion in this Official Statement. The delay in preparing such statement for Fiscal Year 2002 is a result of the fact that (i) this is the first year in which the State is preparing GAAP-basis financial statements in compliance with GASB 34 (see "STATE FUNDS AND REVENUES – Governmental Accounting Standards Board (GASB)'s Statement No. 34") and (ii) this is the first year in which the State's financial information was processed under its new financial management information system (See "STATE FUNDS AND REVENUES – New Statewide Financial Management Information System"). Preliminary budgetary (or cash) basis financial information for Fiscal Year 2002 comparable to the financial information set forth in the General Fund, Transportation Fund and Education Fund Operating Statements for Fiscal Years 2000-2003 was available and is included in such tables. See also "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Fiscal Year 2002" for a discussion of preliminary operating results for Fiscal Year 2002. See "STATE FUNDS AND REVENUES – Federal Receipts" for a discussion of preliminary estimates of federal receipts during Fiscal Year 2002. Tables of the Special and Fish & Wildlife Funds are not presented. However, the fund balances for the two funds at June 30, 2001 were $51.7 million and $5.8 million, respectively. Although final reports are not yet complete for fiscal year 2002, preliminary reports indicate that their fund balances at June 30, 2002 will be $56.6 million and $5.0 million, respectively. Although preliminary, the State feels confident that these numbers are stable, not likely to change and these results agree with the State's expectations for fiscal year 2002. Reclassification has been performed on the FY 2002 presentation of Special Funds in compliance with GASB 34.

STATE OF VERMONT
ALL GOVERNMENTAL FUND TYPES
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

	Fiscal Year Ended June 30,				
	1997	1998	1999	2000	2001
REVENUES:					
Earnings of Departments:					
Fees	$ 35,156,628	$ 30,723,658	$ 33,416,275	$ 34,442,295	$ 36,193,167
Rents and Leases	150,188	181,960	214,157	205,403	182,595
Sales of Service	17,748,830	17,973,512	15,606,889	17,276,552	10,861,647
Federal Funds	599,698,610	690,679,253	752,470,334	847,344,627	849,190,708
Fines, Forfeits and Penalties	7,789,390	7,373,244	8,953,403	10,489,734	9,449,787
Interest	9,524,242	7,216,805	9,410,231	11,548,738	12,813,248
Business Licenses	13,026,154	13,815,872	14,516,886	15,648,026	19,720,980
Non-Business Licenses	38,737,365	47,421,867	48,883,000	51,836,110	50,316,187
Special Assessments	33,116,230	32,768,035	7,581,026	9,329,929	12,797,215
Taxes	867,844,374	981,170,111	1,092,581,137	1,529,512,665	1,590,021,858
Other	30,177,177	34,210,995	43,597,589	39,170,217	43,052,988
Total Revenues	$ 1,652,969,188	$ 1,863,535,312	$ 2,027,230,927	$ 2,566,804,296	$ 2,634,600,380
EXPENDITURES:					
General Government	$ 82,208,395	$ 130,983,914	$ 72,582,300	$ 72,377,387	$ 91,208,675
Protection to Persons and Property	102,618,753	113,904,695	126,537,008	134,520,793	141,541,764
Human Services	718,508,992	771,326,892	824,563,158	910,137,339	910,389,884
Employment and Training	19,193,111	23,926,899	25,997,774	27,631,323	25,999,908
Education	310,474,202	315,650,561	492,704,507	893,172,183	894,781,354
Natural Resources	60,756,308	67,002,990	76,188,643	88,148,291	86,780,546
Commerce and Community Development	24,855,985	32,808,072	40,875,808	30,920,684	34,941,291
Transportation	189,821,086	229,415,218	246,716,884	267,400,584	294,277,972
Public Services Enterprises	1,334,119	1,505,472	1,517,976	1,272,134	1,257,308
Debt Service	68,335,515	69,951,578	72,067,102	74,855,283	73,895,944
Other	14,275,580	5,630,110	1,304,778	4,971,000	12,132,666
Total Expenditures	$ 1,592,382,046	$ 1,762,106,401	$ 1,981,055,938	$ 2,505,407,001	$ 2,567,207,312
Excess of Revenues Over (Under) Expenditures	$ 60,587,142	$ 101,428,911	$ 46,174,989	$ 61,397,295	$ 67,393,068
OTHER FINANCING SOURCES (USES):					
Bond and Note Proceeds	$ 40,475,727	$ 111,160,293	$ 34,285,000	$ 37,000,000	$ -
Lottery Transfers In	23,733,161	22,229,341	19,055,102	19,426,594	16,950,084
Net Operating Transfers In (Out)	(52,908,843)	(125,468,298)	(14,187,717)	(76,642,494)	(81,179,859)
Other Sources (Uses)	765,118	(73,967,925)	3,488,320	1,018,351	66,590
Total Other Financing Sources (Uses)	$ 12,065,163	$ (66,046,589)	$ 42,640,705	$ (19,197,549)	$ (64,163,185)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 72,652,305	$ 35,382,322	$ 88,815,694	$ 42,199,746	$ 3,229,883
Fund Balance, July 1(as restated)	$ 83,337,322	$ 155,989,627	$ 191,371,949	$ 280,311,714	$ 321,926,077
Fund Balance, June 30.	$ 155,989,627	$ 191,371,949	$ 280,187,643	$ 322,511,460	$ 325,155,960

STATE INDEBTEDNESS

State Indebtedness and Procedure for Authorization

The State has no constitutional or other limit on its power to issue obligations or incur indebtedness besides borrowing only for public purposes. In 1989, the Institution Committees of the House and Senate recommended the creation of a Capital Debt Affordability Advisory Committee responsible for overseeing long-term capital planning for the State. The Committee was created by the 1990 General Assembly. See "Capital Debt Affordability Advisory Committee" herein. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May or June preceding such fiscal year, or in subsequent fiscal years.

The State Constitution does not contain provisions requiring submission of the question of incurring indebtedness to a public referendum. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and the manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The State's Public Improvement bonds and the State's Transportation and Highway bonds are paid respectively from the State's General Fund and Transportation Fund.

Pursuant to various appropriation acts, the State has authorized and issued general obligation bonds for a variety of projects or purposes. Each appropriation act usually specifies projects or purposes and the amount of General Fund or Transportation Fund bonds to be issued, and provides that General Fund or Transportation Fund bonds shall be issued in accordance with the Debts and Claims provisions of the General Obligation Bond Law.

Pursuant to the Refunding Bond Act, the State has authorized the issuance of general obligation bonds to refund or to advance refund all or any portion of one or more issues of outstanding general obligation bonds. Most provisions of the General Obligation Bond Law apply to the issuance of such refunding bonds.

In general, the State has borrowed money by issuing general obligation bonds, commercial paper and notes for the payment of which the full faith and credit of the State are pledged. The State, however, also has established certain statewide authorities which have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability. See "Contingent Liabilities" and "Reserve Fund Commitments" hereinafter.

There are no State constitutional provisions limiting the power of the General Assembly to impose any taxes on property or income in order to pay debt service on general obligation indebtedness. There are also no constitutional provisions limiting the power of the General Assembly to enact liens on or pledges of State revenues or taxes or the establishment of priorities, for payment of such debt service. There are no express statutory provisions establishing any priorities in favor of holders of general obligation indebtedness over other valid claims against the State.

The General Assembly has established by statute various general requirements for the issuance of general obligation notes or bonds. The State Treasurer, with notification to the Governor, may issue notes or other similar obligations including commercial paper in order to raise funds to pay the expenses of government for which appropriations have been made but for which anticipated revenues have not been received, to defray accumulated state deficits, and in anticipation of bonds. The State Treasurer, with the approval of the Governor, is authorized to issue and sell bonds that mature not later than twenty years after the date of such bonds and, except for capital appreciation bonds, such bonds must be payable in substantially equal or diminishing amounts annually. Under the General Obligation Bond Law, except with respect to refunding bonds, the first of such annual payments is to be made not later than five years after the date of the bonds. All terms of the bonds shall be determined by the State Treasurer with the approval of the Governor as he or she may deem for the best interests of the State.

In 2001, the General Assembly added statutory provisions that require any entity that pays a majority of its operating expense in any fiscal year with money appropriated by the State to notify and obtain the approval of the State Treasurer and Governor prior to incurring any debt including, but not limited to, debt incurred through the issuance of bonds, notes, bank loans, mortgages, lease-purchase contracts and capital leases. In 2002, the General

Assembly amended this provision to exclude municipalities from the approval requirement, to establish a borrowing threshold of $1 million before approval is required and to clarify that the amounts deemed appropriated do not include non-discretionary federal funds.

The State Treasurer is directed by the General Obligation Bond Law to pay the interest or investment return on and principal or maturity value of bonds when due “without further order or authority” and to pay the interest on and principal of notes, and expenses of preparing, issuing and marketing of such notes when due “without further order or authority.” To the extent not otherwise provided, the amount necessary each year to pay the maturing principal or maturity value of and interest or investment return on bonds is required by statute to be included in and made a part of the annual appropriation bill for the expense of State government, and such principal or maturity value of and interest or investment return on bonds as may come due before appropriations for the payment thereof have been made is to be paid from the General Fund or from the Transportation Fund.

The doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State. The provisions of the General Obligation Bond Law above recited do not constitute, in the opinion of Bond Counsel, express consent by the State to be sued by a bondholder or a noteholder, although such consent might be so construed by force of necessary implication. The provision referred to above contained in the General Obligation Bond Law appears, however, to impose a legal duty on the State Treasurer to pay principal of and interest on the Bonds and on other bonds and notes when due, either from the General Fund or from the Transportation Fund or from amounts appropriated therefor by the General Assembly.

Under the General Obligation Bond Law, the State Treasurer has an explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations therefor if amounts in the General Fund or Transportation Fund are insufficient. In the event of failure by the State to make such payment when due, it would appear that a Bondholder may sue the State Treasurer to compel such payment from any moneys available. Under this principle, sovereign immunity would not bar a suit to compel the disbursement of State moneys when a State law imposes a duty to pay.

The State has never defaulted on the punctual payment of principal of or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Debt Statement

The following table sets forth, as of June 30, 2002, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State. The following table and the Selected Debt Statistics that follow it do not reflect the issuance of the 2002 Series A Bonds, the Bonds or the 2002 Series C Bonds or the refunding effected by the Bonds.

State of Vermont
Debt Statement
As of June 30, 2002 (in $ thousands)

General Obligation Bonds [(1)]:	
General Fund	$426,896
Transportation Fund	15,214
Special Fund	18,385
Contingent Liabilities:	
VEDA Family Farm Loans	720
VEDA Mortgage Insurance Program	4,097
VEDA Financial Access Program	848
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	411,650
Vermont Housing Finance Agency	79,245
VEDA Commitment	25,000
Gross Direct and Contingent Debt	982,055
Less:	
Contingent Liabilities	(5,665)
Reserve Fund Commitments	(515,895)
Net Tax-Supported Debt	$460,495

[1] Does not include (i) general obligation bonds which were refunded in advance of their scheduled maturities and (ii) the accretion in the value of capital appreciation bonds.

Selected Debt Statistics[1]

	1998	1999	2000	2001	2002	Projected 2003
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds (000)[2]	$ 528,560	$ 515,369	$ 502,971	$ 454,888	$ 460,495	$450,472
Population[3]	599,699	603,398	603,396	613,704	618,524	619,302
Debt Per Capita	$ 893	$ 860	$ 835	$ 741	$ 745	$727
Personal Income (Millions)	$ 14,653	$ 15,345	$ 16,378	$ 17,120	$ 17,690	$18,186
Debt as a % of Personal Income	3.6%	3.5%	3.1%	2.7%	2.6%	2.5%
General Fund, Transportation Fund and Special Fund Debt Service (000)	$ 69,693	$ 72,449	$ 74,934	$ 73,976	$ 69,199	$72,504
General Fund, Transportation Fund and Special Fund Cash Revenues (000)[4]	$ 977,221	$1,016,554	$1,069,175	$1,117,552	$1,100,289	$1,058,400
Total Debt Service as a % of Total General Transportation Fund and Special Fund Revenues	7.1%	7.1%	7.0%	6.6%	6.3%	6.9%

PERCENTAGE OF DEBT TO BE RETIRED (AS OF JUNE 30, 2002)	SPECIAL FUND	GENERAL FUND	TRANSPORTATION FUND	G.O. TOTAL DEBT
5 years	45.0%	44.7%	52.2%	45.0%
10 years	86.4	78.7	85.4	79.3
15 years	100.0	94.3	93.2	94.5
20 years	100.0	100.0	100.0	100.0

SOURCES: Annual Report of the Commissioner of Finance; U.S. Department of Commerce, Bureau of Economic Analysis.

[1] General obligation bond principal debt only, excludes notes, lease/purchase obligations, as well as contingent liabilities and reserve fund commitments, on a budgetary basis.
[2] Excludes general obligation bonds which were refunded in advance of their scheduled maturities.
[3] Reflects population data available immediately following each year; does not reflect any subsequent revisions to such data.
[4] Excludes Education Fund Revenues and Federal Revenues. Includes only Special Fund Revenues dedicated to debt service payments.

Capital Debt Affordability Advisory Committee

The Capital Debt Affordability Advisory Committee was created by the 1990 Vermont Legislature to estimate annually the maximum amount of new long-term general obligation debt that prudently may be authorized by the State for the next fiscal year. The Committee's estimate is required by law to be based on a number of considerations, historic and projected, including debt service requirements, debt service as a percent of total General and Transportation Fund revenues, outstanding debt as a percent of personal income, and per capita debt ratios. The Committee is comprised of five members, four of whom are ex-officio State officials and one of whom is appointed by the Governor from the private sector for a two-year term. The Committee was directed by law to issue a report by September 30 of each calendar year. The amount of general obligation debt authorized by the Vermont Legislature in recent years has never exceeded the Committee's recommended levels.

For fiscal year 2001, the Committee voted to recommend a maximum of $34 million as the prudent amount of debt to be authorized and the Legislature authorized $34 million of additional general obligation bonds. Due to year-end surpluses in fiscal years 2000 and 2001, the State applied $22 million in cash to the $34 million in projects authorized thereby reducing the fiscal year 2001 bond authorization to $12 million. For fiscal year 2002, the Committee voted to recommend a maximum of $39 million as the prudent amount of debt to be authorized and the Legislature authorized $39 million of general obligation bonds. A total of $51 million of general obligation bonds was authorized, therefore, in fiscal years 2001 and 2002. This authorization was fully exhausted through the issuance of bonds in the fall of 2001. For fiscal year 2003, the Committee voted to recommend a maximum of $39 million and the Legislature authorized $39 million of general obligation bonds. For fiscal year 2004, the Committee voted to recommend a maximum of $39 million; the Legislature will consider the authorization of debt when it convenes in 2003.

The following table sets forth, as of the dates indicated, the total amount of new debt authorized by the State.

Total New Debt Authorization by Fiscal Year

Fiscal Year	Amount of Authorization (in Millions)
1993	$ 73.7
1994	64.3
1995	60.9
1996	50.0
1997	42.8
1998	42.9
1999	39.0
2000	39.0*
2001	34.0*
2002	39.0
2003	39.0

* Approximately $2 million of revenues were used to pay for capital projects authorized in fiscal year 2000 instead of the proceeds of bonds. Approximately $22 million of revenues were used to pay for capital projects authorized in fiscal year 2001 instead of the proceeds of bonds. This had the effect of reducing the authorized amount of bonds by $2 million in fiscal year 2000 (to $37 million) and by $22 million in fiscal year 2001 (to $12 million).

Debt Service Requirements

Set forth below is a schedule of the principal and interest requirements of all general obligation bonds of the State outstanding on June 30, 2002 exclusive of bonds that were refunded in advance of their scheduled maturities. The Special Fund bonds are general obligation bonds issued to refund certain certificates of participation and a lease purchase agreement. This schedule does not reflect the issuance of the Bonds, the 2002 Series A Bonds or the 2002 Series C Bonds or the refunding effected by the Bonds.

STATE OF VERMONT
Debt Service on General Obligation Bonds
As of June 30, 2002

GENERAL FUND[1]

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2003	44,005,203	23,278,452	67,283,655	382,891,107
2004	40,699,633	21,253,557	61,953,190	342,191,474
2005	36,926,910	19,485,729	56,412,639	305,264,564
2006	35,115,228	18,089,083	53,204,311	270,149,336
2007	34,190,703	16,771,375	50,962,078	235,958,633
2008	32,577,504	15,517,330	48,094,834	203,381,129
2009	31,937,612	14,250,181	46,187,793	171,443,517
2010	29,026,558	12,819,811	41,846,369	142,416,959
2011	26,524,957	11,665,208	38,190,165	115,892,002
2012	25,134,961	7,463,300	32,598,261	90,757,041
2013	21,429,138	5,395,559	26,824,697	69,327,903
2014	21,395,880	4,582,303	25,978,183	47,932,023
2015	13,857,065	2,320,859	16,177,924	34,074,958
2016	10,707,065	1,628,851	12,335,916	23,367,893
2017	7,917,065	1,093,489	9,010,554	15,450,828
2018	5,730,828	700,727	6,431,555	9,720,000
2019	4,360,000	414,180	4,774,180	5,360,000
2020	2,680,000	287,550	2,967,550	2,680,000
2021	2,680,000	160,250	2,840,250	0

[1] Reflects only General Obligation Bonds, not other obligations payable from the General Fund.

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2003	2,107,535	728,086	2,835,621	13,106,433
2004	1,757,063	622,433	2,379,496	11,349,370
2005	1,535,002	543,307	2,078,309	9,814,368
2006	1,269,860	472,813	1,742,673	8,544,508
2007	1,276,455	410,081	1,686,536	7,268,053
2008	1,247,049	350,443	1,597,492	6,021,004
2009	1,236,455	290,063	1,526,518	4,784,549
2010	1,190,663	230,163	1,420,826	3,593,886
2011	1,193,095	172,090	1,365,185	2,400,791
2012	1,177,756	113,105	1,290,861	1,223,035
2013	395,817	54,852	450,669	827,218
2014	394,241	35,697	429,938	432,977
2015	132,935	21,307	154,242	300,042
2016	132,935	14,746	147,681	167,107
2017	132,935	8,185	141,120	34,172
2018	34,172	1,623	35,795	0
2019			0	0
2020			0	0

SPECIAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2003	1,490,000	895,035	2,385,035	16,895,000
2004	1,555,000	827,985	2,382,985	15,340,000
2005	1,630,000	758,010	2,388,010	13,710,000
2006	1,705,000	678,260	2,383,260	12,005,000
2007	1,900,000	594,835	2,494,835	10,105,000
2008	1,985,000	510,850	2,495,850	8,120,000
2009	2,090,000	405,675	2,495,675	6,030,000
2010	2,205,000	294,715	2,499,715	3,825,000
2011	840,000	186,225	1,026,225	2,985,000
2012	480,000	145,950	625,950	2,505,000
2013	505,000	123,150	628,150	2,000,000
2014	530,000	98,910	628,910	1,470,000
2015	560,000	72,940	632,940	910,000
2016	590,000	45,500	635,500	320,000
2017	320,000	16,000	336,000	0
2018			0	0
2019			0	0
2020			0	0

Short-Term Debt

The Treasurer is authorized to borrow on the credit of the State through the issuance of notes and tax exempt commercial paper (1) to pay expenses of government for which appropriations have been made but for which anticipated revenues have not been received, (2) for the purpose of defraying accumulated State deficits, (3) in anticipation of the receipt of State bond proceeds and (4) for paying costs of issuance of such obligations. In addition, the Treasurer is authorized to enter into credit or liquidity facilities with respect to such obligations.

The following table sets forth the maximum amounts of revenue anticipation borrowings outstanding at any date during each of the six most recent fiscal years and the amounts outstanding as of each fiscal year end. The State issued $75,000,000 of revenue anticipation notes in August, 2002, the first short term borrowing of the State since fiscal year 1998. Such notes are due on June 17, 2003.

Bond Anticipation Notes,
Revenue Anticipation Notes/
Commercial Paper Notes
($ Millions)
Fiscal Year Ended June 30

	1997	1998	1999	2000	2001	2002	2003[2]
Maximum outstanding during fiscal year........	$105	$20[1]	None	None	None	None	$75
Outstanding at fiscal year end...............................	None	None	None	None	None	None	None

[1] Comprised solely of general obligation revenue anticipation notes.

[2] Projected. The State issued $75,000,000 of general obligation revenue anticipation notes in August, 2002, which notes mature on June 17, 2003.

Total Authorized Unissued Debt

The State has issued all of the bonds authorized to be issued pursuant to Acts adopted prior to fiscal year 2002. Act 149 of 2002 authorized $39 million of bonds to be issued. The State expects that it will not issue approximately $3.2 million of such amount in fiscal year 2003.

Notwithstanding any provision of law, the State Treasurer is authorized to transfer unspent proceeds derived from the sale of State bonds or notes previously issued for additional projects authorized by the General Assembly; and the State Treasurer is further authorized to issue bonds or notes of the State to replenish such transferred funds for application to the original capital projects. Under Section 954 of Title 32, the State Treasurer shall provide the Secretary of Administration with notification of any such transfers and shall provide the Chairpersons of the House and Senate Committees on Institutions with an annual report on all such transfers during the preceding fiscal year.

Contingent Liabilities

Vermont Economic Development Authority. In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed the Vermont Economic Development Authority in 1993 ("VEDA" or the "Authority") transferring to it the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority and the Vermont Industrial Aid Board. Each of the original entities was delegated a particular segment of industrial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. The Authority is governed by a twelve-member board comprised of the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Commissioner of Agriculture, Food and Markets of the State of Vermont, and nine persons appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to $15 million of mortgages made by lenders for the purchase of land and construction of industrial building facilities in the State, to finance machinery and equipment, and to provide working capital. The full faith and credit of the State of Vermont is pledged to support these activities of the Authority. As of June 30, 2002, the Authority had mortgage insurance contracts outstanding of $4,097,366.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lender enrolls in the program. The full faith and credit of the State is pledged in an amount equal to the reserve premium deposited by the participating lenders for each enrolled loan, with the aggregate amount of credit that may be pledged not to exceed $2 million at any time. The State's contingent liability at June 30, 2002 was $847,611. The State's cumulative net cash contribution since inception is $258,437.

The 1999 General Assembly created the Vermont Agricultural Credit Corporation ("VACC") to be operated by the Authority. The VACC assumed all the assets and liabilities of the Family Farm Debt Stabilization Program ("DSP") and the Agriculture Finance Program ("AFP"). These programs were previously administered by the Authority. In 1988 the DSP borrowed $20,000,000 from a group of Vermont banks. A pledge of the full faith and credit of the State secured the repayment of the debt. In 1996, the Authority borrowed an additional $2,000,000 from a single Vermont bank, also secured by the pledge of the full faith and credit of the State. As of June 30, 2002 the $20 million loan had been paid in full and the remaining balance on the $2 million note was $720,266.

Reserve Fund Commitments

Vermont Municipal Bond Bank: The Vermont Municipal Bond Bank (the "Bond Bank") was established by the State in 1970 for the purpose of aiding governmental units in the financing of their public improvements by making available a voluntary, alternate method of marketing their obligations in addition to the ordinary competitive bidding channels. By using the Bond Bank, small individual issues of governmental units can be combined into one larger issue that would attract more investors. The Bond Bank is authorized to issue bonds in order to make loans to municipalities in the State through the purchase of either general obligation or revenue bonds of the municipalities. The Bond Bank consists of five directors: the State Treasurer, who is a director ex-officio, and four directors appointed by the Governor with the advice and consent of the Senate for terms of two years. To date, the Bond

Bank has issued 37 series of bonds. The principal amount of bonds outstanding as of June 30, 2002 was $411,650,000. The Bond Bank's outstanding bonds have been issued under two separate general bond resolutions, one adopted on May 3, 1988 (the "1988 resolution") and one adopted on February 17, 1972 (the "1972 resolution"). For bonds issued under the 1972 resolution, the Bond Bank is required to maintain a reserve fund at all times equal to the maximum annual debt service requirement. For bonds issued under the 1988 resolution, the Bond Bank is required to maintain a reserve fund equal to the lesser of: the maximum annual debt service requirement, 125% of average annual debt service, or 10% of the proceeds of any series of bonds. The Bond Bank anticipates issuing all additional bonds under the 1988 resolution. If the reserve funds have less than the required amount, the chairman shall notify the Governor or Governor-elect of the deficiency. The General Assembly is legally authorized but not legally obligated to appropriate money to maintain the reserve funds at their required levels. Since the participating municipalities have always met their obligations on their bonds the State has never needed to appropriate any money to the reserve fund, and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency: The Vermont Housing Finance Agency was created by the State in 1974 for the purpose of promoting the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The Agency consists of seven commissioners, including ex-officio the Commissioner of Banking, Insurance, Securities and Health Care Administration, the State Treasurer, the Secretary of Commerce and Community Development, or their designees, and four commissioners to be appointed by the Governor with the advice and consent of the Senate for terms of four years. The Agency is empowered to issue notes and bonds in an amount not to exceed $900,000,000 outstanding at any one time.

As of June 30, 2002, its total outstanding indebtedness was $747,846,057. The act established a debt service reserve fund similar to the reserve fund for the Vermont Municipal Bond Bank but limited the amount of outstanding indebtedness which may be secured by this fund to $125,000,000. If the reserve funds have less than the required amount, the chairman shall notify the Governor or Governor-elect of the deficiency. The General Assembly is legally authorized but not legally obligated to appropriate money to maintain the reserve funds at their required levels. As of June 30, 2002, the reserve fund requirement was $6,776,900, and the value of the fund was $7,093,561. It has not been necessary for the State to appropriate money to maintain the reserve fund, and it is not anticipated that any appropriation will be needed. As of June 30, 2002, the outstanding debt of the Agency secured by the reserve fund was $79,245,000.

Vermont Economic Development Authority: The Authority has established a commercial paper program to fund loans to local and regional development corporations and to businesses under certain programs in an amount aggregating up to $40 million. The Authority's commercial paper for these purposes is supported by a direct-pay letter of credit from a bank. The direct-pay letter of credit is secured from various repayment sources, including a $16 million leverage fund held by a trustee and a debt service reserve fund pledge from the State of Vermont in an amount not to exceed $25 million. This debt service reserve pledge is based on a similar structure utilized by both the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency as discussed above. The amount of commercial paper outstanding under this program at June 30, 2002 was $24,550,000.

PENSION PLANS

The State maintains three statutory pension plans: the State Teachers' Retirement System of Vermont, with 10,257 active and 3,991 retired members as of June 30, 2002; the Vermont State Retirement System, which includes general State employees and State Police, with 7,725 active and 3,633 retired members as of June 30, 2002; and the Vermont Municipal Employees' Retirement System, with 4,924 active and 903 retired members as of June 30, 2002. Each retirement system is serviced by an independent actuarial firm.

Public Employee Retirement Systems Defined Benefit Plan
Analysis of Funding Progress Using GASB Statement No. 25
($000)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
Vermont State Retirement System	6/30/98	$733,716	$804,501	$70,785	91.2%	$235,956	30.0%
	6/30/99	804,970	876,412	71,441	91.9%	238,281	30.0%
	6/30/00	895,151	967,064	71,913	92.6%	266,519	27.0%
	6/30/01	954,821	1,026,993	72,172	93.0%	278,507	25.9%
	6/30/02	990,450	1,017,129	26,679	97.4%	300,994	8.9%
State Teachers' Retirement System	6/30/98	821,977	955,694	133,717	86.0%	357,899	37.4%
	6/30/99	931,056	1,066,400	135,344	87.3%	372,299	36.4%
	6/30/00	1,037,466	1,174,087	136,621	88.4%	387,999	35.2%
	6/30/01	1,116,846	1,254,341	137,496	89.0%	403,258	34.1%
	6/30/02	1,169,294	1,307,202	137,908	89.5%	418,904	32.9%
Vermont Municipal Employees' Retirement System	6/30/98	113,678	102,005	(11,673)	111.4%	79,056	(14.8)%
	6/30/99	137,454	114,481	(22,973)	120.1%	70,808	(32.4)%
	6/30/00	161,900	138,697	(23,203)	116.7%	87,147	(26.6)%
	6/30/01	177,928	158,786	(19,142)	112.1%	101,873	(18.8)%
	6/30/02	193,278	176,109	(17,169)	109.7%	106,986	(16.0)%

Source: Annual Actuarial Valuation Reports

The following tables set forth the total assets, amount of employee and employer contributions, net investment income, and disbursements including benefit payments, refunds on death and refunds plus interest on withdrawals, for the State Teachers', State and Municipal Employees' Retirement Systems defined benefit plans for fiscal year 1993 through fiscal year 2002, inclusive.

State Teachers' Retirement System of Vermont Defined Benefit Plan[1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2002	$1,090,866,255	$18,073,548	$20,448,248	($56,937,537)	$54,266,491
2001	1,154,185,392	16,350,020	19,143,827	(38,810,722)	48,929,303
2000	1,207,519,089	15,747,082	18,586,240	90,583,761	44,632,926
1999	1,159,656,713	15,684,409	18,080,000	105,919,955	38,879,837
1998	1,021,729,143	14,597,611	18,080,000	144,785,913	36,139,629
1997	900,736,475	14,329,170	18,080,000	161,620,196	33,586,667
1996	703,392,428	13,834,709	11,480,000	45,679,843	34,086,306
1995	601,099,962	13,191,489	18,080,000	35,323,377	29,800,415
1994	517,057,237	13,776,364	20,580,000	48,144,866	27,912,707
1993	486,947,910	12,207,001	19,890,048	33,494,783	25,094,554

Vermont State Retirement System Defined Benefit Plan[1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements
2002	$ 975,195,519	$11,723,858	$23,788,282	($55,362,596)	$51,373,166
2001	1,084,280,086	10,845,315	19,548,598	(78,694,636)	48,176,511
2000	1,176,318,988	8,628,317	19,012,608	113,121,773	45,843,848
1999	1,066,254,319	8,174,412	23,059,182	77,622,035	60,636,039
1998	958,998,101	7,427,456	23,752,988	140,574,272	37,408,346
1997	842,579,617	7,050,071	24,123,075	143,867,034	35,377,546
1996	638,674,000	7,165,566	19,614,590	62,764,697	30,796,536
1995	538,670,983	6,135,289	20,383,360	31,827,597	28,129,308
1994	473,120,324	4,779,117	21,790,524	63,170,797	27,081,545
1993	456,245,555	3,556,760	22,850,090	39,567,542	24,097,306

[1] Source: June 30, 1993 - 1996, Annual Actuarial Valuation Reports. Beginning June 30, 1997, Comprehensive Annual Financial Reports.

[2] Net Investment Income is presented in accordance with GASB 25 beginning June 30, 1997. Prior to June 30, 1997, the Net Investment Income does not include unrealized gains and losses.

Vermont Municipal Employees' Retirement System Defined Benefit Plan [1]

Year Ended June 30	Total Assets at Market	Employee Contributions	Employer Contributions	Net Investment Income[2]	Disbursements[3]
2002	$200,880,056	$4,412,699	$4,941,465	($2,884,622)	$5,877,465
2001	195,169,272	4,066,523	4,571,993	(506,729)	9,215,493
2000	197,020,268	4,414,961	4,788,671	8,624,104	4,357,654
1999	158,723,203	3,574,005	3,960,602	19,618,932	3,862,374
1998[3]	135,323,847	3,311,019	3,714,140	22,863,273	4,809,235
1997	110,145,785	3,220,930	3,541,693	18,486,921	3,320,060
1996	86,949,200	3,121,356	3,365,821	3,362,091	3,360,160
1995	73,232,751	2,993,887	3,045,585	4,189,763	2,489,489
1994	59,743,078	2,673,625	3,003,674	3,915,255	2,135,601
1993	54,931,581	2,205,811	2,692,159	4,066,991	1,729,923

[1] Source: June 30, 1993 - 1996, Annual Actuarial Valuation Reports. Beginning June 30, 1997, Comprehensive Annual Financial Reports.

[2] Net Investment Income is presented in accordance with GASB 25 beginning June 30, 1997. Prior to June 30, 1997, the Net Investment Income does not include unrealized gains and losses.

[3] Disbursements for June 30, 1998 in the Municipal Employee's Retirement System were significantly higher due to the withdrawal from the system of the community of Stowe. June 30, 1999 State Retirement System includes transfers to a newly created Defined Contribution Plan for exempt employees. June 30, 2001 Municipal Employee's Retirement System includes transfers to a newly created Defined Contribution Plan.

The State appropriates funding for pension costs associated with its two major retirement plans, the Vermont State Retirement System and the State Teachers' Retirement System of Vermont, covering substantially all State employees and teachers, respectively. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could elect to transfer their current memberships from a contributory to a non-contributory membership class. In 1990, however, the Legislature again made both systems contributory, the State Teachers' Retirement System effective July 1, 1990 and the State Retirement System effective January 1, 1991. The State's contributions to each system are based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are fixed on the basis of the liabilities of the systems as shown by actuarial valuations. Present law provides that the systems' unfunded accrued liabilities shall be amortized over 30 years beginning July 1, 1988.

There is also a Vermont Municipal Employees' Retirement System that was established effective July 1, 1975. Prior to July 1, 1987, the State was statutorily responsible for contributions to the system's pension accumulation fund. Effective July 1, 1987 and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers pay quarterly into the pension accumulation fund percentages of the annual earnable compensation of each membership group as "normal" contributions and "accrued liability" contributions. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. Over 800 eligible employees had a one-time, irrevocable option of transferring the actuarial value of their accrued benefit from the defined benefit to the defined contribution plan on January 1, 1999. The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. 374 exempt employees elected to transfer to the defined contribution plan, representing approximately 45% of the eligible population. Assets totaling $21 million were transferred from the defined benefit plan to the defined contribution plan as a result of the election on January 4, 1999. As the attendant decrease in liabilities in the defined benefit plan was equal to $21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or the defined contribution plan. As of June 30, 2001, plan assets totaled $27.4 million and there were 535 participants.

The Legislature granted authority to the Vermont Municipal Employees' Retirement System's Board of Trustees to establish a defined contribution plan that may be offered in lieu of the defined benefit plan currently available under the Municipal Retirement System. The plan was made available to new members effective July 1, 2000. The defined contribution plan may be offered by municipal employers to one or more groups of eligible employees. Once offered by the employer, each eligible employee is required to make an election to participate.

Sixty-one municipalities chose to offer the defined contribution plan to their employees in 2000. Eighty-one employees elected the defined contribution plan and transferred the actuarial value of their accrued benefit totaling $3.3 million on July 1, 2001. Employers that did not offer the defined contribution plan to their employees by December 31, 1999 have an opportunity to do so by December 31 of any subsequent year, with transfer effective the following July 1. An additional 20 municipalities chose to offer the plan prior to December 31 of 2000 and $656,125 in fiscal year 2002 was transferred on behalf of 262 employees who chose the plan. In calendar year 2001, five municipalities offered the plan to their employees. Eleven employees in those municipalities, to date, have elected the plan. These transfers of $66,545 were completed, effective July 1, 2002.

EMPLOYEE RELATIONS

As of July 2, 2002, there were 8,164 authorized positions in the executive branch of State government. This figure includes both classified and exempt positions. Seasonal work force needs affect the number of temporary positions. Therefore, they are not included in the number of authorized positions.

The State's classified employees are represented by the Vermont State Employees' Association ("VSEA"). The State's current contract with VSEA, which began on July 1, 2001 and expires on June 30, 2003, provides cost of living adjustments for most of the State's classified employees of $.50 per hour which became effective July 1, 2001, $.25 per hour which became effective January 13, 2002, and 3% which was effective July 14, 2002 in addition to traditional longevity-based salary increases (steps) which represent an average cost of 1.98% per year. Uniformed State Police personnel did not receive the cost of living adjustments in fiscal year 2002, but did receive other negotiated salary provisions. They will receive the 3% cost of living adjustment in fiscal year 2003. Employees in the Supervisory Bargaining Unit on August 1, 2001, except uniformed State Police personnel, received a one-time, lump sum, cash payment of $250.00 in the pay check issued for the first full pay period after August 1, 2001. Employees in the Supervisory Bargaining Unit on August 1, 2002, except uniformed State Police personnel, will receive a one-time, lump sum, cash payment of $125.00 to be paid in the pay check issued for the first full pay period after August 1, 2002. The contract also contains a livable wage provision which provides additional quarterly lump sum cash payments to those employees whose annualized salaries are less than $18,720. Each quarterly payment is equal to one-fourth of the difference between the employees' annualized base salary at the start of the calendar quarter and $18,720.

LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum income taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. A copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity with respect to such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), such difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds and the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations, the amount of tax-exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has covenanted in certain documents relating to the Bonds to comply with certain restrictions designed to ensure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Tax Certificate and Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal, State, or local tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder and the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

No assurance can be given that any future legislation or clarification of the Code, if enacted into law, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service, including but not limited to selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Bonds, or bonds which present similar tax issues, will not affect the market price for the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

FINANCIAL ADVISOR

Government Finance Associates, Inc. serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, Government Finance Associates, Inc. has read and participated in the preparation of certain portions of this Official Statement. Government Finance Associates, Inc. is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments.

RATINGS

The State has received ratings of "AA+," "Aa1" and "AA+" from Fitch Inc., Moody's Investors Service and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. (each, a "Rating Agency"), respectively on the Bonds. The State furnished each Rating Agency with certain information and materials concerning the Bonds and the State. Generally, each Rating Agency bases its rating on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that such rating will continue for any given period of time or that such rating may not be suspended, lowered or withdrawn entirely by such Rating Agency if, in its judgment, circumstances so warrant. Any explanation of the significance of the ratings may be obtained only from each respective Rating Agency.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, whose opinion approving the validity and tax-exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of opinion is attached hereto as Appendix C.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish certificates of the Treasurer and Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or to the best of each officer's knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or the levy or collection or enforcement of any taxes to pay principal of or interest on the Bonds.

The Governor's and Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate, dated the date of delivery of the Bonds, signed by the Governor and the Treasurer of the State, certifying that to the best of their knowledge this Official Statement, as of the date of this Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, commencing with the report for the 2001-2002 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the State with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the State with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below in Appendix B hereto, "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the purchasers in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Pursuant to existing continuing disclosure agreements, the State has filed the annual information required, although the State's filing of such information for fiscal years 1999-2000 and 2000-2001 was not within the time periods required by such continuing disclosure agreements.

UNDERWRITING

The Bonds are being purchased for re-offering by the Underwriter, UBS PaineWebber Inc., at an aggregate purchase price of $33,907,636.65 plus accrued interest. The State will pay the Underwriter a fee equal to $91,509.50. The Contract of Purchase provides that the Underwriter will purchase all of the Bonds if any are purchased. The Underwriter may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices stated on the cover page hereof. The public offering prices (or yields) set forth on the cover page hereof may be changed from time to time after the initial offering by the Underwriter.

ADDITIONAL INFORMATION

The Commissioner of Finance and Management reports on the financial conditions for the State including its operations and balances, receipts, and disbursements of the various funds in the Annual Financial Report. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. James H. Douglas, 133 State Street, Montpelier, Vermont 05633-6200, telephone: (802) 828-2301 or from Mr. J. Chester Johnson, Chairman, Government Finance Associates, Inc., 919 Third Avenue, 27th Floor, New York, New York 10022, Telephone: (212) 836-4819.

It is the current policy of the State to provide copies of the General Obligation Bond Law, prior Official Statements of the State and the State's annual financial reports upon request. The State reserves the right at any time to change this policy to comply with law or for any other reason.

Several discussions throughout this Official Statement are based, in part, on estimates related to fiscal year 2002 and projections and forward looking statements related to fiscal year 2003 and subsequent years. No assurance can be given that the budget, the revenue and expenditure estimates or the forward-looking statements discussed will be realized. The accuracy of the budget, the revenue and expenditure estimates and forward statements related to fiscal years 2002 and 2003 cannot be verified until after the close of the fiscal year. In addition the accuracy of all projections and forward statements is dependent on a number of factors including (1) general economic factors that affect local source revenues such as individual income taxes and sales and use taxes, (2) general factors that affect the United States economy and the State economy, and (3) the accuracy of data relating to employment, inflation and income growth in the United States and in the State.

Any statements in the Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose.

By: /s/ Howard B. Dean
Howard B. Dean
Governor

By: /s/ James H. Douglas
James H. Douglas
Treasurer

Dated: December 9, 2002

APPENDIX A

STATE OF VERMONT ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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ELIZABETH M. READY
STATE AUDITOR

STATE OF VERMONT

OFFICE OF THE STATE AUDITOR
132 STATE STREET
MONTPELIER, VERMONT 05633-5101

Independent Auditor's Report

Speaker, House of Representatives
and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont
State House
Montpelier, Vermont

We have audited the accompanying general purpose financial statements of the State of Vermont, as of June 30, 2001 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these statements based on our audit. We did not audit the financial statements of certain entities that aggregate the following percentages of total assets and revenues:

	Percentage of	
	Total Assets	**Total Revenues**
Combined Balance Sheet – All Fund Types, Account Group and Discretely Presented Component Units:		
Special Revenue Funds	**30.7%**	**N/A**
Enterprise Funds	**38.4%**	**N/A**
Discretely Presented Component Units	**100.0%**	**N/A**
Trust and Agency Funds	**10.9%**	**N/A**
Combined Statement of Revenues, Expenditures and Changes In Fund Equity – All Governmental Fund Types, Expendable Trust Funds Discretely Presented Component Units:		
Special Revenue Funds	**N/A**	**1.2%**
Expendable Trust Funds	**N/A**	**69.2%**
Discretely Presented Component Units	**N/A**	**100.0%**

State Auditor & Deputy
(802) 828-2281
e-mail: auditor@sao.state.vt.us

Fax: (802) 828-2198
Website: www.state.vt.us/sao

	Percentage of	
	Total Assets	**Total Revenues**
Combined Statement of Revenues, Expenditures and Changes In Fund Equity – All Proprietary Fund Types, Non Expendable Trust Funds and Discretely Presented Component Units:		
Enterprise Funds	**N/A**	**70.2%**
Discretely Presented Component Units	**N/A**	**100.0%**
Combined Statement of Current Revenue Funds, Expenditures and Other Changes:		
University of Vermont	**N/A**	**100.0%**
Vermont State Colleges	**N/A**	**100.0%**

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the State Environmental Revolving Fund (blended into the Federal Revenue Fund) and the Vermont Sustainable Jobs Fund (a discretely presented component unit) were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, a General Fixed Asset Account Group is not presented in the accompanying general purpose financial statements as required by generally accepted accounting principles because the State does not maintain such records.

In our opinion, based on our audit and the reports of the other auditors, except for the effects on the financial statements of the omission of the General Fixed Asset Account Group, as described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Vermont as of June 30, 2001, and the results of its operations and cash flows of its proprietary, nonexpendable trust fund types and discretely presented component units for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Vermont. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the Introductory and Statistical Sections of this report and, accordingly, express no opinion thereon.

In accordance with *Government Auditing Standards,* we have also issued a report, dated March 20, 2002, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain laws and regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Elizabeth M. Ready

Elizabeth M. Ready
State Auditor

March 20, 2002

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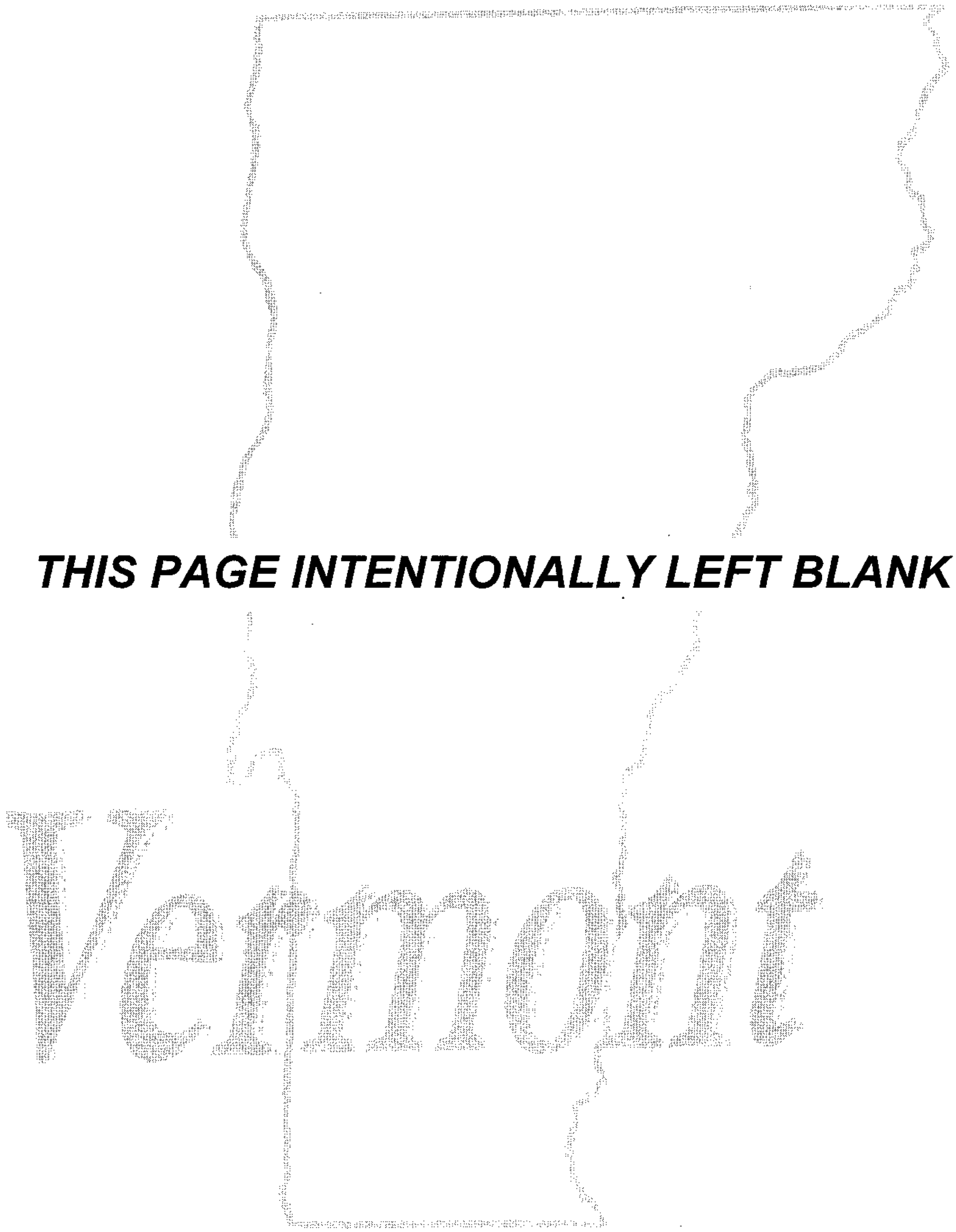

GENERAL PURPOSE COMBINED FINANCIAL STATEMENTS

STATE OF VERMONT
COMBINED BALANCE SHEET-ALL FUND TYPES, ACCOUNT GROUP
AND DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2001

	Governmental Fund Types		
ASSETS AND OTHER DEBITS	General	Special Revenue	Capital Projects
Assets:			
Cash and Cash Equivalents (Note 3)	$ 156,133,559	$ 118,150,825	$ 28,040,480
Investments (Note 3)	-	-	-
Receivables (Net) (Note 1):			
Accounts	3,123,274	113,187,553	-
Taxes	97,805,228	14,390,801	-
Investment Principal and Interest	-	1,027	-
Loans and Notes	18,612,338	96,103,930	-
Due from Other Funds	2,285,980	2,666,496	-
Due from Component Units	849,811	3,921,240	-
Due from Primary Government	-	-	-
Interfund Loans Receivable	9,524,497	-	-
Advances to Other Funds	323,700	-	-
Advances to Component Units	1,915,711	-	-
Inventories, at cost (Note 1)	-	-	-
Prepaid Expenses	-	-	-
Restricted Cash (Note 3)	-	3,651,405	-
Fixed Assets (Net Book Value)(Note 4)	-	-	-
Other Assets	-	-	-
Amount to be Provided for Retirement of General Long-Term Debt	-	-	-
Total Assets and Other Debits	$ 290,574,098	$ 352,073,277	$ 28,040,480
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	$ 30,818,502	$ 109,563,568	$ 1,364,781
Claims Payable (Note 16)	-	-	-
Accrued Salaries and Benefits	7,348,811	9,089,987	-
Tax Refunds Payable	72,105,524	-	-
Retainage Payable	427,356	2,757,713	530,952
Due to Other Funds	12,688	61,287	-
Due to Primary Government	-	-	-
Due to Component Units	1,229,954	900,000	-
Interfund Loans Payable	-	-	-
Advances From Other Funds	-	-	-
Advances From Primary Government	-	-	-
Deferred Revenue	5,873,529	103,037,582	-
Amounts Held in Custody for Others	-	-	-
Current Portion of Long Term Debt	-	-	-
Other Liabilities (Note 1)	-	409,661	-
Capital Lease Obligation (Note 7)	-	-	-
Net Pension Obligation (Note 5)	-	-	-
Compensated Absences (Note 1)	-	-	-
Bonds and Notes Payable (Note 8)	-	-	-
Total Liabilities	$ 117,816,364	$ 225,819,798	$ 1,895,733
FUND EQUITY AND OTHER CREDITS (Notes 1,2,10 and 14):			
Investment in General Fixed Assets	$ -	$ -	$ -
Contributed Capital	-	-	-
Retained Earnings	-	-	-
Fund Balances:			
Net Investment in Plant	-	-	-
Reserved (Note 6)	86,174,465	31,571,981	3,781,371
Restricted	-	-	-
Unreserved-Designated For:			
Continuing Appropriations	-	-	22,363,376
Other Specific Purposes	-	-	-
Unreserved-Undesignated	86,583,269	94,681,498	-
Total Fund Equity and Other Credits	$ 172,757,734	$ 126,253,479	$ 26,144,747
Total Liabilities, Fund Equity, and Other Credits	$ 290,574,098	$ 352,073,277	$ 28,040,480

The accompanying notes are an integral part of the financial statements.

Proprietary Fund Types		Fiduciary Fund Types	Account Group	Total
	Internal	Trust and	General Long-Term	Primary Government (Memorandum Only)
Enterprise	Service	Agency	Debt	June 30, 2001
$ 2,384,195	$ 23,686,579	$ 384,620,894	$ -	$ 713,016,533
4,646,719	-	2,402,983,759	-	2,407,630,478
			-	
1,070,228	8,603,867	128,707,044	-	254,691,967
-	-	9,753,724	-	121,949,753
18,196	-	12,646,282	-	12,665,505
2,074,641	-	-	-	116,790,909
-	10,053	45,728	-	5,008,257
-	-	-	-	4,771,051
-	-	-	-	0
-	-	-	-	9,524,497
-	-	-	-	323,700
-	-	-	-	1,915,711
4,737,913	2,442,759	-	-	7,180,672
242,853	343,157	-	-	586,010
693,292	-	-	-	4,344,697
539,751	19,816,878	-	-	20,356,629
37,476	15,100	-	-	52,576
-	-	-	637,193,718	637,193,718
$ 16,445,264	$ 54,918,393	$ 2,938,757,432	$ 637,193,718	$ 4,318,002,662
$ 4,708,272	$ 2,180,995	$ 2,870,405	$ -	$ 151,506,523
4,104,549	25,509,584	3,958,924	-	33,573,057
461,215	835,767	-	-	17,735,780
-	-	-	-	72,105,524
-	-	-	-	3,716,021
215,574	13,864	4,704,844	-	5,008,257
-	-	-	-	0
-	-	-	-	2,129,954
730,016	8,556,393	238,088	-	9,524,497
308,600	15,100	-	-	323,700
-	-	-	-	0
265,035	106,260	-	-	109,282,406
-	-	5,814,196	-	5,814,196
-	-	-	-	0
1,057,536	-	162,654,971	7,000,000	171,122,168
-	-	-	-	0
-	-	-	125,124,366	125,124,366
-	-	-	24,625,994	24,625,994
-	-	-	480,443,358	480,443,358
$ 11,850,797	$ 37,217,963	$ 180,241,429	$ 637,193,718	$ 1,212,035,801
$ -	$ -	$ -	$ -	$ 0
3,577,151	12,923,905	-	-	16,501,056
1,017,317	4,776,525	-	-	5,793,842
-	-	-	-	0
-	-	2,757,763,400	-	2,879,291,217
-	-	-	-	0
-	-	-	-	22,363,376
-	-	-	-	0
-	-	752,603	-	182,017,370
$ 4,594,467	$ 17,700,430	$ 2,758,516,003	$ 0	$ 3,105,966,861
$ 16,445,264	$ 54,918,393	$ 2,938,757,432	$ 637,193,718	$ 4,318,002,662

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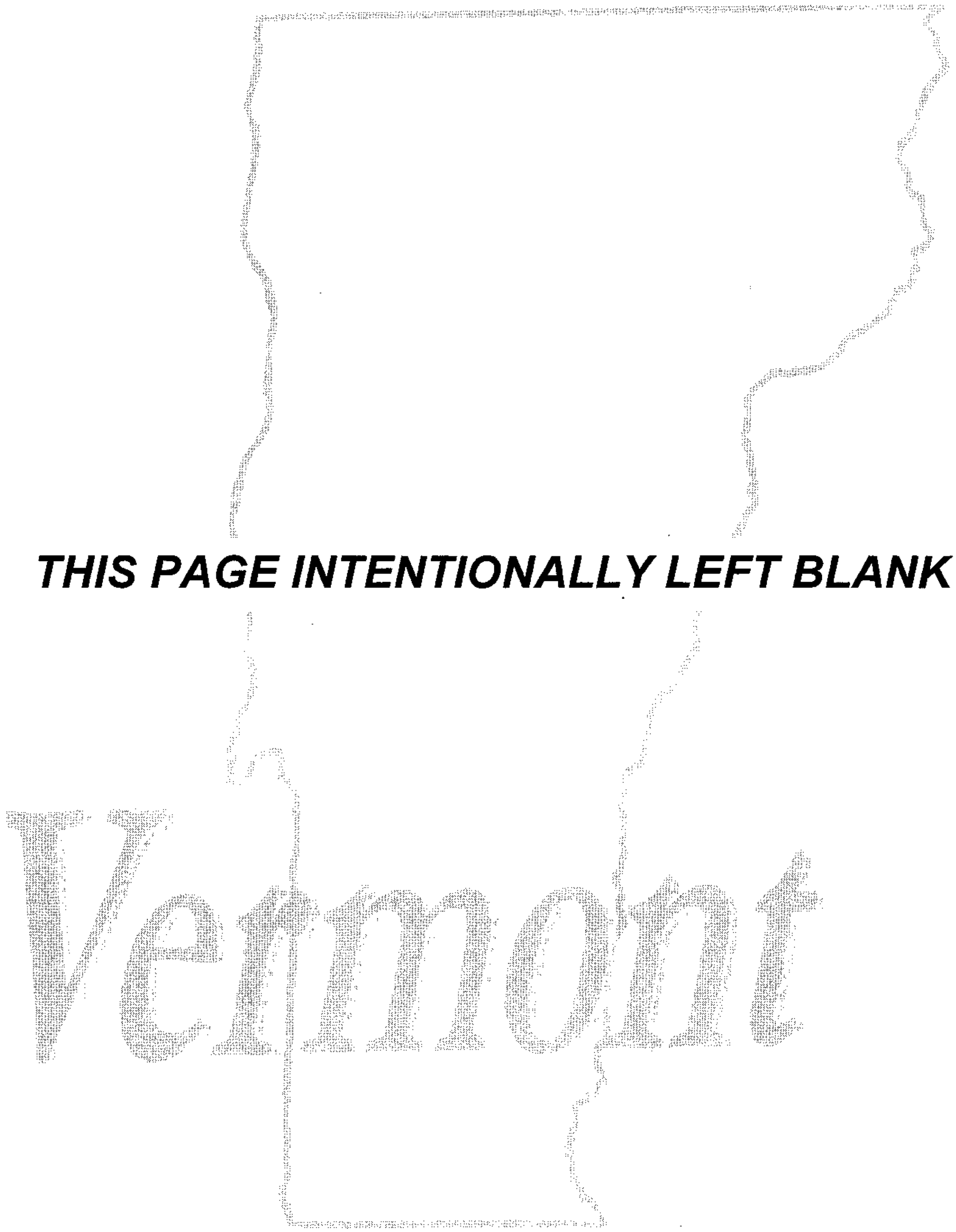
STATE OF VERMONT
COMBINED BALANCE SHEET-ALL FUND TYPES, ACCOUNT GROUP
AND DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2001

	Discretely Presented Component Units			Total Reporting Entity (Memorandum Only)
ASSETS AND OTHER DEBITS	Other	Vermont State Colleges	University of Vermont	June 30, 2001
Assets:				
Cash and Cash Equivalents (Note 3)	$ 304,890,696	$ 4,167,070	$ 48,294,000	$ 1,070,368,299
Investments (Note 3)	121,389,796	25,735,376	251,620,000	2,806,375,650
Receivables (Net):				
Accounts	21,674,928	4,842,948	26,722,000	307,931,843
Tax	-	-	-	121,949,753
Investment Principal and Interest	396,000	11,303	-	13,072,808
Loans and Notes	1,344,769,807	4,845,054	35,286,000	1,501,691,770
Due from Other Funds	-	1,430,729	-	6,438,986
Due from Component Units	-	-	-	4,771,051
Due from Primary Government	2,129,954	-	-	2,129,954
Interfund Loans Receivable	-	-	-	9,524,497
Advances to Other Funds	-	-	-	323,700
Advances to Component Units	-	-	-	1,915,711
Inventories, at cost (Note 1)	108,123	111,982	1,899,000	9,299,777
Prepaid Expenses	19,809	387,963	7,055,000	8,048,782
Restricted Cash (Note 3)	88,487	-	-	4,433,184
Fixed Assets (Net Book Value)(Note 4)	8,703,105	155,679,727	185,099,000	369,838,461
Other Assets	12,059,564	293,225	43,837,000	56,242,365
Amount to be Provided for Retirement of General Long-Term Debt	-	-	-	637,193,718
Total Assets and Other Debits	**$ 1,816,230,269**	**$ 197,505,377**	**$ 599,812,000**	**$ 6,931,550,308**
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	$ 4,639,525	$ 631,400	$ 12,366,000	$ 169,143,448
Claims Payable (Note 16)	-	-	-	33,573,057
Accrued Salaries and Benefits	759,446	3,696,426	21,480,000	43,671,652
Tax Refunds Payable	-	-	-	72,105,524
Retainage Payable	-	-	-	3,716,021
Due to Other Funds	-	1,430,729	-	6,438,986
Due to Primary Government	4,771,051	-	-	4,771,051
Due to Component Units	-	-	-	2,129,954
Interfund Loans Payable	-	-	-	9,524,497
Advances From Other Funds	-	-	-	323,700
Advances From Primary Government	1,915,711	-	-	1,915,711
Deferred Revenue	41,415,095	2,303,503	24,956,000	177,957,004
Amounts Held in Custody for Others	-	-	-	5,814,196
Current Portion of Long Term Debt	26,707,998	-	-	26,707,998
Other Liabilities (Note 1)	48,602,222	409,899	-	220,134,289
Capital Lease Obligation (Note 7)	-	195,522	-	195,522
Net Pension Obligation (Note 5)	-	-	-	125,124,366
Compensated Absences (Note 1)	-	-	-	24,625,994
Bonds and Notes Payable (Note 8)	1,547,266,075	21,405,705	73,221,000	2,122,336,138
Total Liabilities	**$ 1,676,077,123**	**$ 30,073,184**	**$ 132,023,000**	**$ 3,050,209,108**
FUND EQUITY AND OTHER CREDITS (Notes 1,2,10 and 14):				
Investment in General Fixed Assets	$ 134,200	$ -	$ -	$ 134,200
Contributed Capital	-	-	-	16,501,056
Retained Earnings	38,080,959	-	-	43,874,801
Fund Balances:				
Net Investment in Plant	3,217,000	139,161,497	110,681,000	253,059,497
Reserved (Note 6)	19,296,552	12,281,300	228,720,000	3,139,589,069
Restricted	41,591,537	8,995,896	100,915,000	151,502,433
Unreserved-Designated For:				
Continuing Appropriations	23,206,000	-	-	45,569,376
Other Specific Purposes	-	3,542,372	27,473,000	31,015,372
Unreserved-Undesignated	14,626,898	3,451,128	-	200,095,396
Total Fund Equity and Other Credits	**$ 140,153,146**	**$ 167,432,193**	**$ 467,789,000**	**$ 3,881,341,200**
Total Liabilities, Fund Equity, and Other Credits	**$ 1,816,230,269**	**$ 197,505,377**	**$ 599,812,000**	**$ 6,931,550,308**



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STATE OF VERMONT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES-ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS
AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
REVENUES:			
Taxes:			
Personal Income Tax	$ 458,054,866	$ -	$ -
Corporate Income Tax	40,758,387	9,560,609	-
Sales and Use	215,153,183	-	-
Meals and Rooms	80,318,722	18,221,366	-
Motor Fuel Tax	-	66,714,714	-
Purchase and Use Tax	-	72,960,888	-
Other Taxes	86,419,445	541,859,658	-
Earnings of Departments	10,555,548	36,681,861	-
Federal Grants	-	849,190,708	-
Fines, Forfeits and Penalties	1,891,354	7,558,433	-
Investment Income	7,969,640	4,843,608	-
Licenses	2,546,877	67,490,290	-
Special Assessments	367,043	12,430,172	-
Tobacco Settlement	-	-	-
Other Revenues	621,829	42,431,159	-
Total Revenues	**$ 904,656,914**	**$ 1,729,943,466**	**$**
EXPENDITURES:			
General Government	$ 53,499,488	$ 27,216,666	$ 10,492,521
Protection to Persons and Property	54,014,291	83,689,105	3,838,368
Human Services	297,951,849	611,285,241	1,152,794
Employment and Training	434,471	25,565,437	-
Education	42,593,438	841,314,632	10,873,284
Natural Resources	14,977,568	64,518,830	7,284,148
Commerce and Community Development	14,776,725	18,970,260	1,194,306
Transportation	-	294,265,617	12,355
Public Service Enterprises	-	1,257,308	-
Debt Service	68,376,276	5,519,668	-
Benefit Payments	-	-	-
Other Expenditures	-	12,132,666	-
Total Expenditures	**$ 546,624,106**	**$ 1,985,735,430**	**$ 34,847,776**
Excess of Revenues Over(Under) Expenditures	**$ 358,032,808**	**$ (255,791,964)**	**$ (34,847,776)**
Other Financing Sources (Uses):			
Operating Transfers In (Note 18)	$ 20,855,048	$ 301,025,135	$ 35,786,750
Operating Transfers In-Primary Government (Note 18)	-	-	-
Operating Transfers Out (Note 18)	(300,711,299)	(40,408,896)	(1,512,767)
Operating Transfers Out-Component Units (Note 18)	(74,310,716)	(1,152,016)	(3,801,014)
Other Sources (Uses)	176,875	(127,861)	17,576
Total Other Financing Sources (Uses)	**$ (353,990,092)**	**$ 259,336,362**	**$ 30,490,545**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**$ 4,042,716**	**$ 3,544,398**	**$ (4,357,231)**
Fund Balances, July 1, as restated (Note 10)	**168,715,018**	**122,709,081**	**30,501,978**
Fund Balances, June 30	**$ 172,757,734**	**$ 126,253,479**	**$ 26,144,747**

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Types Expendable Trust	Total Primary Government (Memorandum Only) 2001	Governmental Fund Types Component Units	Total Reporting Entity (Memorandum Only) 2001
$ -	$ 458,054,886	$ -	$ 458,054,886
-	50,318,996	-	50,318,996
-	215,153,183	-	215,153,183
-	98,540,088	-	98,540,088
-	66,714,714	-	66,714,714
-	72,960,888	-	72,960,888
42,123,716	670,402,819	10,632,619	681,035,438
-	47,237,409	92,453	47,329,862
732,156	849,922,864	6,132,971	856,055,835
-	9,449,787	-	9,449,787
22,046,699	34,859,947	29,527,134	64,387,081
-	70,037,167	-	70,037,167
-	12,797,215	-	12,797,215
24,685,492	24,685,492		24,685,492
6,321,742	49,374,730	424,403	49,799,133
$ 95,909,804	**$ 2,730,510,184**	**$ 46,809,580**	**$ 2,777,319,764**
$ -	$ 91,208,675	$ -	$ 91,208,675
-	141,541,764	-	141,541,764
-	910,389,884	-	910,389,884
-	25,999,908	-	25,999,908
-	894,781,354	-	894,781,354
-	86,780,546	-	86,780,546
-	34,941,291	-	34,941,291
-	294,277,972	-	294,277,972
-	1,257,308	-	1,257,308
-	73,895,944	-	73,895,944
50,439,171	50,439,171	-	50,439,171
24,081,782	36,214,448	44,853,538	81,067,986
$ 74,520,953	**$ 2,641,728,265**	**$ 44,853,538**	**$ 2,686,581,803**
$ 21,388,851	**$ 88,781,919**	**$ 1,956,042**	**$ 90,737,961**
$ 4,638,623	$ 362,305,556	$ -	$ 362,305,556
-	0	4,500,000	4,500,000
(5,648,895)	(348,281,857)	-	(348,281,857)
-	(79,263,746)	-	(79,263,746)
-	66,590	-	66,590
$ (1,010,272)	**$ (65,173,457)**	**$ 4,500,000**	**$ (60,673,457)**
$ 20,378,578	**$ 23,608,461**	**$ 6,456,042**	**$ 30,064,503**
321,939,559	**643,865,636**	**27,377,418**	**671,243,054**
$ 342,318,137	**$ 667,474,097**	**$ 33,833,460**	**$ 701,307,557**

STATE OF VERMONT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GENERAL AND SPECIAL REVENUE FUNDS
BUDGET AND ACTUAL (BUDGETARY BASED)
FOR THE YEAR ENDED JUNE 30, 2001

	General Fund		
	Budget	Actual (Budgetary Based)	Variance-Favorable (Unfavorable)
Revenues:			
Taxes	$ 857,800,000	$ 871,932,925	$ 14,132,925
Licenses	2,400,000	2,663,773	263,773
Fines, Forfeits and Penalties	1,900,000	1,924,821	24,821
Earnings of Departments	10,400,000	10,923,985	523,985
Federal	-	-	0
Interest and Premiums	10,000,000	7,960,465	(2,039,535)
Lottery Transfer	-	-	0
Other	1,200,000	440,032	(759,968)
Special Fund Revenues	-	-	0
Total Revenues	**$ 883,700,000**	**$ 895,846,001**	**$ 12,146,001**
General Government	$ 71,847,120	$ 53,340,928	$ 18,506,192
Protection to Persons and Property	56,849,191	53,711,313	3,137,878
Human Services	330,390,752	307,774,008	22,616,744
Employment and Training	411,063	295,899	115,164
General Education	53,160,413	41,637,768	11,522,645
Natural Resources	23,934,193	14,743,207	9,190,986
Commerce and Community Development	16,212,189	14,658,686	1,553,503
Transportation	-	-	0
Public Service Enterprises	-	-	0
Debt Service	68,450,815	68,376,276	74,539
Total Expenditures	**$ 621,255,736**	**$ 554,538,085**	**$ 66,717,651**
Excess of Revenues over (Under) Expenditures	**$ 262,444,264**	**$ 341,307,916**	**$ 78,863,652**
Other Financing Sources (Uses):			
Operating Transfers In	$ 21,038,671	$ 21,038,671	$ 0
Operating Transfers Out	(379,737,156)	(379,737,156)	0
Other Sources	-	176,876	176,876
Total Other Financing Sources (Uses)	**$ (358,698,485)**	**$ (358,521,609)**	**$ 176,876**
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**$ (96,254,221)**	**$ (17,213,693)**	**$ 79,040,528**
Fund Balance, July 1, as restated	**164,647,895**	**164,647,895**	
Fund Balance, June 30	**$ 68,393,674**	**$ 147,434,202**	**$ 79,040,528**

The accompanying notes are an integral part of the financial statements.

Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual (Budgetary Based)	Variance-Favorable (Unfavorable)	Budget	Actual (Budgetary Based)	Variance-Favorable (Unfavorable)
$ 204,220,000	$ 355,476,842	$ 151,256,842	$ 1,062,020,000	$ 1,227,409,767	$ 165,389,767
48,600,000	64,614,248	16,014,248	51,000,000	67,278,021	16,278,021
-	8,409,483	8,409,483	1,900,000	10,334,304	8,434,304
14,750,000	38,505,586	23,755,586	25,150,000	49,429,571	24,279,571
941,058,482	862,475,351	(78,583,131)	941,058,482	862,475,351	(78,583,131)
200,000	4,103,982	3,903,982	10,200,000	12,064,447	1,864,447
17,800,000	17,442,919	(357,081)	17,800,000	17,442,919	(357,081)
3,443,179	40,914,340	37,471,161	4,643,179	41,354,372	36,711,193
178,686,107	-	(178,686,107)	178,686,107	-	(178,686,107)
$ 1,408,757,768	**$ 1,391,942,751**	**$ (16,815,016)**	**$ 2,292,457,768**	**$ 2,287,788,752**	**$ (4,669,016)**
$ 30,366,506	$ 26,892,071	$ 3,474,435	$ 102,213,626	$ 80,232,999	$ 21,980,627
99,204,132	87,263,351	11,940,781	156,053,323	140,974,664	15,078,659
645,793,736	626,602,385	19,191,351	976,184,488	934,376,393	41,808,095
30,681,832	25,545,120	5,136,712	31,092,895	25,841,019	5,251,876
528,442,378	489,616,728	38,825,650	581,602,791	531,254,496	50,348,295
67,628,161	60,659,263	6,968,898	91,562,354	75,402,470	16,159,884
33,956,739	18,867,480	15,089,259	50,168,928	33,526,166	16,642,762
353,449,554	292,165,282	61,284,272	353,449,554	292,165,282	61,284,272
1,453,153	1,453,153	0	1,453,153	1,453,153	0
5,774,527	5,519,668	254,859	74,225,342	73,895,944	329,398
$ 1,796,750,718	**$ 1,634,584,501**	**$ 162,166,217**	**$ 2,418,006,454**	**$ 2,189,122,586**	**$ 228,883,868**
$ (387,992,950)	**$ (242,641,750)**	**$ 145,351,201**	**$ (125,548,686)**	**$ 98,666,166**	**$ 224,214,852**
$ 282,025,334	$ 282,025,334	$ 0	$ 303,064,005	$ 303,064,005	$ 0
(40,285,549)	(40,285,549)	0	(420,022,705)	(420,022,705)	0
-	(128,211)	(128,211)	-	48,665	48,665
$ 241,739,785	**$ 241,611,574**	**$ (128,211)**	**$ (116,958,700)**	**$ (116,910,035)**	**$ 48,665**
$ (146,253,165)	**$ (1,030,176)**	**$ 145,222,990**	**$ (242,507,386)**	**$ (18,243,869)**	**$ 224,263,517**
109,085,528	**109,085,528**		**273,733,423**	**273,733,423**	
$ (37,167,637)	**$ 108,055,352**	**$ 145,222,990**	**$ 31,226,037**	**$ 255,489,554**	**$ 224,263,517**

STATE OF VERMONT
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES-ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS, AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise	Internal Service	Nonexpendable Trust
Operating Revenues:			
Charges For Sales and Services	$ 32,507,551	$ 107,383,863	$ -
Lottery Ticket Sales	81,198,198	-	-
Fees	206,826	-	-
Investment Income	-	-	664,848
Other Operating Revenues	1,880,232	9,075,697	-
Total Operating Revenues	**$ 115,792,807**	**$ 116,459,560**	**$ 664,848**
Operating Expenses:			
Cost of Sales and Services	$ 25,671,377	$ 26,703,293	$ -
Lottery Prizes	52,230,445	-	-
Lottery Tickets, Commissions and Fees	10,160,026	-	-
Claims Expense	-	45,330,367	-
Salaries, Wages and Benefits	1,832,020	8,073,868	-
Supplies and Parts	57,316	444,378	-
Depreciation and Amortization	354,760	3,886,222	-
Rentals	42,068	918,814	-
Stores and Agencies	3,252,828	-	-
Administrative Expenses	2,115,407	3,945,503	-
Inspection and Enforcement Expense	1,245,045	-	-
Equipment Purchased for Agencies	-	1,520,153	-
Repairs and Maintenance	-	2,044,071	-
Interest Expense	-	-	-
Insurance Premium Expense	-	22,091,497	-
Education Grants & Scholarships	-	-	-
Arbitrage Rebates & Yield Compliance	-	-	-
Loss on Bad Debts and Guarantees	9,117	46,403	-
Other Operating Expenses	2,109,707	3,162,322	112,753
Total Operating Expenses	**$ 99,080,115**	**$ 118,166,891**	**$ 112,753**
Operating Income(Loss)	**$ 16,712,692**	**$ (1,707,331)**	**$ 552,095**
Non-Operating Revenues(Expenses):			
Gain(Loss) on Disposal of Fixed Assets	$ (606,681)	$ 220,221	$ -
Investment Income	708,675	1,183,481	-
Other Non-Operating Revenues(Expenses)	-	-	-
Total Non-Operating Revenues(Expenses)	**$ 101,995**	**$ 1,403,702**	**$ 0**
Income(Loss) Before Operating Transfers	**$ 16,814,687**	**$ (303,629)**	**$ 552,095**
Operating Transfers In (Note 18)	22,162	4,619,571	1,000,000
Operating Transfers In - Primary Government (Note 18)	-	-	-
Operating Transfers Out (Note 18)	(17,277,084)	(2,388,348)	-
Operating Transfers Out - Component Units (Note 18)	-	-	(212,570)
Net Income(Loss)	**$ (440,235)**	**$ 1,927,594**	**$ 1,339,525**
Retained Earnings/Fund Balances, July 1, as restated (Note 10)	**1,457,553**	**2,848,931**	**6,829,531**
Retained Earnings/Fund Balances, June 30	**$ 1,017,317**	**$ 4,776,525**	**$ 8,169,056**

The accompanying notes are an integral part of the financial statements

Total Primary Government (Memorandum Only) 2001	Component Units Proprietary Fund Type	Total Reporting Entity (Memorandum Only) 2001
$ 139,891,414	$ 9,226,245	$ 149,117,659
81,198,198	-	81,198,198
206,826	9,887,609	10,094,435
664,848	83,764,015	84,428,863
10,955,929	7,293,432	18,249,361
$ 232,917,215	**$ 110,171,301**	**$ 343,088,516**
$ 52,374,670	$ -	$ 52,374,670
52,230,445	-	52,230,445
10,160,026	-	10,160,026
45,330,367	-	45,330,367
9,905,888	24,696,111	34,601,999
501,694	-	501,694
4,240,982	3,092,376	7,333,358
960,882	-	960,882
3,252,828	-	3,252,828
6,060,910	13,730,851	19,791,761
1,245,045	-	1,245,045
1,520,153	-	1,520,153
2,044,071	-	2,044,071
0	56,775,079	56,775,079
22,091,497	-	22,091,497
0	16,896,153	16,896,153
0	(5,087,000)	(5,087,000)
55,520	649,644	705,164
5,384,782	2,008,380	7,393,162
$ 217,359,759	**$ 112,761,594**	**$ 330,121,353**
$ 15,557,456	**$ (2,590,293)**	**$ 12,967,163**
$ (386,460)	$ -	$ (386,460)
1,892,156	-	1,892,156
0	42,392	42,392
$ 1,505,697	**$ 42,392**	**$ 1,548,089**
$ 17,063,153	**$ (2,547,901)**	**$ 14,515,252**
5,641,733	-	5,641,733
0	16,821,316	16,821,316
(19,665,432)	-	(19,665,432)
(212,570)	-	(212,570)
$ 2,826,884	**$ 14,273,415**	**$ 17,100,299**
11,136,015	**91,469,045**	**102,605,060**
$ 13,962,898	**$ 105,742,460**	**$ 119,705,358**

STATE OF VERMONT
COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS
AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise	Internal Service	Nonexpendable Trust
Cash Flows from Operating Activities:			
Cash Received from Customers	$ 126,020,199	$ 115,394,960	$ -
Cash Paid to Suppliers For Goods and Services	(33,100,519)	(58,382,831)	-
Loans Received (Made)	-	-	-
Cash Paid to Employees For Services	(3,437,297)	(9,284,853)	-
Cash Paid for Prizes and Commissions	(55,734,561)	-	-
Cash Paid to Claimants	-	(40,740,319)	-
Liquor Taxes and Licenses Paid	(10,657,418)	-	-
Interest Received (Paid)	-	-	105,793
Cash Paid for Fees, Operations and Other	(7,380,206)	-	-
Other Operating Revenues(Expenses)	1,054,467	(491,983)	(112,753)
Net Cash Provided (Used) by Operating Activities	**$ 16,764,664**	**$ 6,494,974**	**$ (6,960)**
Cash Flows from Noncapital Financing Activities:			
Proceeds from Sale of Bonds/Notes	$ -	$ -	$ -
Payments on Notes	-	-	-
Operating/Equity Transfers In (Out)	(17,462,724)	2,220,872	787,430
Operating Transfers In (Out) - Primary Government	-	-	-
Interfund Loans and Advances	-	2,489,925	-
Other Non-Operating Revenue	69,867	-	-
Net Cash Provided (Used)by Noncapital Financing Activities	**$ (17,392,857)**	**$ 4,710,797**	**$ 787,430**
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Fixed Assets	$ (319,586)	$ (8,832,387)	$ -
Proceeds from Sale of Fixed Assets	23,564	774,034	-
Net Cash Provided (Used) by Capital and Related Financing Activities	**$ (296,022)**	**$ (8,058,353)**	**$ 0**
Cash Flows From Investing Activities:			
Interest and Dividends on Investments	$ 569,936	$ 1,183,481	$ -
Proceeds from Sales/Maturities of Investments	334,000	-	-
Purchase of Investments	(1,805,183)	-	(6,475,519)
Net Cash Provided (Used) by Investing Activities	**$ (901,247)**	**$ 1,183,481**	**$ (6,475,519)**
Net Increase(Decrease) in Cash and Cash Equivalents	**$ (1,825,462)**	**$ 4,330,899**	**$ (5,695,049)**
Cash and Cash Equivalents at July 1, as restated (Note 10)	**4,902,949**	**19,355,680**	**6,725,562**
Cash and Cash Equivalents at June 30	**$ 3,077,487**	**$ 23,686,579**	**$ 1,030,513**

Reconciliation of Cash and Cash Equivalents to the Combined Balance Sheet:	**Trust and Agency**
Nonexpendable Trust	$ 1,030,513
Other Trust and Agency	383,590,381
Total Cash and Cash Equivalents per the Combined Balance Sheet	$ 384,620,894

The accompanying notes are an integral part of the financial statements.

	Total Primary Government (Memorandum Only) 2001	Component Units Proprietary Fund Types	Total Reporting Entity (Memorandum Only) 2001
	$ 241,415,159	$ 182,312,040	$ 423,727,199
	(91,483,350)	(93,941,307)	(185,424,657)
	0	(253,628,793)	(253,628,793)
	(12,722,150)	(22,982,089)	(35,704,239)
	(55,734,561)	-	(55,734,561)
	(40,740,319)	-	(40,740,319)
	(10,657,418)	-	(10,657,418)
	105,793	55,803,438	55,909,231
	(7,380,206)	-	(7,380,206)
	449,731	-	449,731
	$ 23,252,678	**$ (132,436,711)**	**$ (109,184,033)**
	$ 0	$ 193,532,500	$ 193,532,500
	0	(76,339,133)	(76,339,133)
	(14,454,422)	-	(14,454,422)
	0	16,017,239	16,017,239
	2,489,925	39,947	2,529,872
	69,867	(23,000)	46,867
	$ (11,894,630)	**$ 133,227,553**	**$ 121,332,923**
	$ (9,151,973)	$ (960,591)	$ (10,112,564)
	797,598	-	797,598
	$ (8,354,375)	**$ (960,591)**	**$ (9,314,966)**
	$ 1,753,417	$ 11,360,000	$ 13,113,417
	334,000	13,359,706	13,693,706
	(8,280,702)	(7,338,799)	(15,619,501)
	$ (6,193,285)	**$ 17,380,907**	**$ 11,187,622**
	$ (3,189,612)	**$ 17,211,158**	**$ 14,021,546**
	30,984,191	**256,617,186**	**287,601,377**
	$ 27,794,579	**$ 273,828,344**	**$ 301,622,923**

STATE OF VERMONT
COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Proprietary Fund Types		Fiduciary Fund Type
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	**Enterprise**	**Internal Service**	**Nonexpendable Trust**
Operating Income(Loss)	$ 16,712,692	$ (1,707,331)	$ 552,095
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	$ 351,325	$ 3,884,324	$ -
Revenue from Non-Operating Investment and Other Activity	-	-	(663,024)
(Increase)Decrease in Accounts Receivable	(143,919)	(731,225)	103,969
(Increase) Decrease in Loans Receivable	(128,745)	-	-
Increase(Decrease) in Allowance for Uncollectible Accounts	-	-	-
(Increase)Decrease in Accrued Interest Receivable	-	-	-
(Increase)Decrease in Due from Other Funds	-	1,534	-
(Increase) Decrease in Other Receivables	-	-	-
(Increase)Decrease in Inventory	55,632	598,888	-
(Increase)Decrease in Prepaid Expenses	(82,630)	80,390	-
(Increase)Decrease in Other Assets	-	-	-
Increase(Decrease) in Accounts Payable	(1,602,991)	203,044	-
(Increase)Decrease in Accrued Interest Payable	-	-	-
Increase(Decrease) in Accrued Salaries and Benefits	21,479	(36,120)	-
Increase (Decrease) in Claims Payable	1,040,789	4,422,466	-
Increase(Decrease) in Due to Agents	20,122	-	-
Increase(Decrease) in Interfund Payable	-	(71,409)	-
Increase(Decrease) in Future and Unclaimed Prizes Payable	150,129	-	-
Increase in Deferred Income	6,589	(148,567)	-
Increase(Decrease) in Due to Other Funds	365,103	(1,020)	-
(Decrease)Increase in Other Liabilities	-	-	-
Increase(Decrease) in Subscription Reserves	(910)	-	-
Total Adjustments	**$ 51,972**	**$ 8,202,305**	**$ (559,055)**
Net Cash Provided (Used) by Operating Activities	**$ 16,764,664**	**$ 6,494,974**	**$ (6,960)**

The accompanying notes are an integral part of the financial statements.

Totals Primary Government (Memorandum Only) 2001	Component Units Proprietary Fund Types	Totals Reporting Entity (Memorandum Only) 2001
$ 15,557,456	$ (2,590,293)	$ 12,967,163
$ 4,235,649	$ 3,037,595	$ 7,273,244
(663,024)	-	(663,024)
(771,175)	109,786	(661,389)
(128,745)	(114,009,685)	(114,138,430)
0	648,433	648,433
0	(12,648,512)	(12,648,512)
1,534	898,000	899,534
0	(262,762)	(262,762)
654,520	25,758	680,278
(2,240)	(12,524)	(14,764)
0	(596,307)	(596,307)
(1,399,947)	776,845	(623,102)
0	(857,210)	(857,210)
(14,641)	62,571	47,930
5,463,255	-	5,463,255
20,122	-	20,122
(71,409)	-	(71,409)
150,129	-	150,129
(141,978)	(770,631)	(912,609)
364,083	477,122	841,205
0	(6,724,897)	(6,724,897)
(910)	-	(910)
$ 7,695,222	**$ (129,846,418)**	**$ (122,151,196)**
$ 23,252,678	**$ (132,436,711)**	**$ (109,184,033)**

STATE OF VERMONT
PENSION TRUST FUNDS
COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2001

		Totals
Additions :		
Contributions		
Employer	$	44,855,989
Plan Member		32,017,508
Other Contributions		92,995
Total Contributions	**$**	**76,966,492**
Investment Income:		
Net Appreciation (Depreciation) in		
Fair value of Investments	$	(178,997,641)
Dividends		23,287,135
Interest Income		51,432,987
Securities Lending Income		17,315,329
Other Income		1,122,448
Total Investment Income	**$**	**(85,839,742)**
Less Investment Expenses:		
Investment Managers and Consultants		9,548,667
Securities Lending Expenses		16,423,197
Total Investment Expenses		**25,971,864**
Net Investment Income	**$**	**(111,811,606)**
Total Additions	**$**	**(34,845,114)**
Deductions:		
Retirement Allowances	$	90,205,185
Refunds of Contributions		2,720,096
Death Claims		114,858
Operating Expenses		14,198,653
Total Deductions	**$**	**107,238,792**
Net Increase (Decrease)	**$**	**(142,083,906)**
Net Assets Held In Trust For		
Pension Benefits:		
Beginning of Year		**2,550,112,716**
End of Year	**$**	**2,408,028,810**

The accompanying notes are an integral part of the financial statements.

STATE OF VERMONT
THE UNIVERSITY OF VERMONT AND
STATE AGRICULTURAL COLLEGE
COMBINED BALANCE SHEET
June 30, 2001
(With comparative totals for June 30, 2000)

	Current	Loan	Endowment and similar	Plant	Agency	Totals June 30, 2001	Totals June 30, 2000
ASSETS:							
Cash and cash equivalents	$ 16,723,000	$ 3,733,000	$ 16,793,000	$ 10,755,000	$ 290,000	$ 48,294,000	$ 29,940,000
Deposits with trustees	1,038,000	-	15,298,000	16,782,000	10,719,000	43,837,000	73,316,000
Investments at market	39,306,000	5,839,000	189,200,000	16,822,000	453,000	251,620,000	248,166,000
Accounts receivable, net	22,029,000	-	-	609,000	4,084,000	26,722,000	18,295,000
Student loans receivable, net	-	35,286,000	-	-	-	35,286,000	34,601,000
Due From Component Units	-	-	-	-	-	0	0
Inventories at lower of cost or market	1,899,000	-	-	-	-	1,899,000	1,982,000
Prepaid expenses and deferred charges	6,401,000	-	-	654,000	-	7,055,000	6,546,000
Land, buildings and equipment, net	1,000	-	307,000	184,791,000	-	185,099,000	165,317,000
Total Assets	**$ 87,397,000**	**$ 44,858,000**	**$ 221,598,000**	**$ 230,413,000**	**$ 15,546,000**	**$ 599,812,000**	**$ 578,163,000**
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accrued liabilities	$ 20,749,000	$ -	$ -	$ 731,000	$ -	$ 21,480,000	$ 24,464,000
Accounts payable	8,577,000	-	-	3,600,000	189,000	12,366,000	10,972,000
Deferred tuition, deposits, and funds held for others	7,556,000	-	-	13,000	15,238,000	22,807,000	21,335,000
Obligations under deferred giving arrangements	-	-	2,030,000	-	119,000	2,149,000	2,207,000
Notes payable	-	-	-	3,000	-	3,000	111,000
Bonds and mortgages payable	-	-	-	73,218,000	-	73,218,000	75,406,000
Total Liabilities	**$ 36,882,000**	**$ 0**	**$ 2,030,000**	**$ 77,565,000**	**$ 15,546,000**	**$ 132,023,000**	**$ 134,495,000**
Interfund Balances	$ (2,000)	$ 2,000	$ -	$ -	$ -	$ 0	$ 0
Total Interfund	**$ (2,000)**	**$ 2,000**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
FUND BALANCES:							
Unrestricted-Internally designated for:							
Working capital	$ 2,000,000	$ -	$ -	$ -	$ -	$ 2,000,000	$ 2,000,000
Provision for encumbrances	2,576,000	-	-	-	-	2,576,000	2,412,000
Future years' operations	3,344,000	-	-	-	-	3,344,000	1,862,000
Restricted	42,597,000	-	-	-	-	42,597,000	29,512,000
U.S. Government capital contribution	-	12,297,000	-	-	-	12,297,000	12,180,000
University loans	-	32,559,000	-	-	-	32,559,000	32,296,000
Endowment	-	-	143,348,000	-	-	143,348,000	142,464,000
Quasi-endowment-unrestricted	-	-	21,220,000	-	-	21,220,000	22,380,000
Quasi-endowment-restricted	-	-	34,834,000	-	-	34,834,000	34,536,000
Term endowment, life income and annuity funds	-	-	20,166,000	-	-	20,166,000	21,637,000
Unexpended plant	-	-	-	13,462,000	-	13,462,000	4,226,000
Renewals and replacements	-	-	-	22,129,000	-	22,129,000	20,969,000
Retirement of indebtedness	-	-	-	6,576,000	-	6,576,000	6,962,000
Invested in plant, net	-	-	-	110,681,000	-	110,681,000	110,232,000
Total Fund Balances	**$ 50,517,000**	**$ 44,856,000**	**$ 219,568,000**	**$ 152,848,000**	**$ 0**	**$ 467,789,000**	**$ 443,668,000**
Total Liabilities and Fund Balances	**$ 87,397,000**	**$ 44,858,000**	**$ 221,598,000**	**$ 230,413,000**	**$ 15,546,000**	**$ 599,812,000**	**$ 578,163,000**

STATE OF VERMONT
THE UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE
COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Unrestricted	Restricted	Totals 2001	Totals 2000
Revenues and Other Additions:				
Tuition and fees	$ 134,800,000	$ -	$ 134,800,000	$ 131,637,000
Federal appropriations	-	4,300,000	4,300,000	4,559,000
State appropriations:				
Vermont: General University	32,447,000	107,000	32,554,000	30,331,000
Other States	195,000	-	195,000	200,000
Local appropriations, grants, contracts	-	-	0	0
Federal grants and contracts	-	46,773,000	46,773,000	39,837,000
State grants and contracts	-	6,540,000	6,540,000	5,095,000
Private gifts and grants	2,832,000	29,342,000	32,174,000	30,561,000
Endowment income	1,152,000	6,276,000	7,428,000	6,193,000
Income from short term investments	5,002,000	-	5,002,000	4,837,000
Sales and services of educational activities	3,937,000	-	3,937,000	3,440,000
Sales and services of auxiliary enterprises	34,340,000	-	34,340,000	32,183,000
Recovery of indirect costs of grants and contracts	16,178,000	-	16,178,000	12,614,000
Change in unrealized investment appreciation	1,311,000	(921,000)	390,000	(484,000)
Other sources	12,548,000	900,000	13,448,000	13,344,000
Total Revenues and Other Additions	**$ 244,742,000**	**$ 93,317,000**	**$ 338,059,000**	**$ 314,347,000**
Expenditures and Mandatory Transfers:				
Educational and general:				
Instruction	$ (69,174,000)	$ (15,515,000)	$ (84,689,000)	$ (82,418,000)
Research	(7,922,000)	(46,868,000)	(54,790,000)	(45,851,000)
Public service	(8,491,000)	(16,977,000)	(25,468,000)	(23,661,000)
Academic support	(27,481,000)	(1,133,000)	(28,614,000)	(25,226,000)
Student services	(10,297,000)	(1,553,000)	(11,850,000)	(11,940,000)
Institutional support	(25,438,000)	(1,227,000)	(26,665,000)	(35,705,000)
Operation and maintenance of plant	(21,487,000)	(183,000)	(21,670,000)	(22,009,000)
Scholarships and fellowships	(24,725,000)	(10,304,000)	(35,029,000)	(31,928,000)
Educational and General Expenditures	**$ (195,015,000)**	**$ (93,760,000)**	**$ (288,775,000)**	**$ (278,738,000)**
Mandatory transfers	$ (3,455,000)	$ 950,000	$ (2,505,000)	$ (3,132,000)
Total Educational and General	**$ (198,470,000)**	**$ (92,810,000)**	**$ (291,280,000)**	**$ (281,870,000)**
Auxiliary Enterprises				
Expenditures	$ (34,396,000)	$ (477,000)	$ (34,873,000)	$ (34,292,000)
Mandatory transfers	(4,680,000)	-	(4,680,000)	(3,288,000)
Total Auxiliary Enterprises	**$ (39,076,000)**	**$ (477,000)**	**$ (39,553,000)**	**$ (37,580,000)**
Total Expenditures and Mandatory Transfers	**$ (237,546,000)**	**$ (93,287,000)**	**$ (330,833,000)**	**$ (319,450,000)**
Other Additions/(Deductions)				
Excess of revenue transfers over restricted receipts	$ -	$ 8,940,000	$ 8,940,000	$ (1,341,000)
Other transfers (to)/from other funds:	(5,550,000)	4,115,000	(1,435,000)	(7,669,000)
Total Other Additions/(Deductions)	**$ (5,550,000)**	**$ 13,055,000**	**$ 7,505,000**	**$ (9,010,000)**
Net Increase For The Year	**$ 1,646,000**	**$ 13,085,000**	**$ 14,731,000**	**$ (14,113,000)**

STATE OF VERMONT
THE UNIVERSITY OF VERMONT AND STATE AGRICULTURAL COLLEGE
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Current			Endowment		Totals	
	Unrestricted	Restricted	Loan	and similar	Plant	2001	2000
Revenues and Other Additions:							
Tuition and fees	$ 134,800,000	$ -	$ -	$ -	$ 968,000	$ 135,768,000	$ 132,627,000
Federal appropriations	-	65,050,000	47,000	-	2,928,000	68,025,000	55,458,000
Vermont State grants	-	7,297,000	-	-	-	7,297,000	5,544,000
Other states	195,000	-	-	-	-	195,000	200,000
County and municipal grants	-	-	-	-	-	0	0
Private gifts and grants	2,832,000	41,974,000	1,000	8,205,000	1,521,000	54,533,000	41,257,000
Endowment income	1,152,000	3,406,000	392,000	-	-	4,950,000	4,434,000
Income from short term investments	5,002,000	-	-	-	2,116,000	7,118,000	7,752,000
Net realized loss from sale of investments and real property	-	-	-	-	11,000	11,000	0
Sales and services of educational activities	3,937,000	-	-	-	-	3,937,000	3,440,000
Sales and services of auxiliary enterprises	34,340,000	-	-	-	-	34,340,000	32,183,000
Recovery of indirect costs	16,178,000	(16,178,000)	-	-	-	0	0
Interest received on student loan notes	-	-	984,000	-	-	984,000	972,000
Change in unrealized investment appreciation	1,311,000	(921,000)	-	(4,472,000)	(72,000)	(4,154,000)	12,130,000
Other sources	12,548,000	1,754,000	160,000	472,000	1,842,000	16,776,000	15,642,000
Total Revenues and Other Additions	$ 212,295,000	$ 102,382,000	$ 1,584,000	$ 4,205,000	$ 9,314,000	$ 329,780,000	$ 311,639,000
Expenditures and Other Deductions:							
Educational and general expenditures	$ (195,015,000)	$ (93,760,000)	$ -	$ -	$ -	$ (288,775,000)	$ (285,255,000)
Auxiliary enterprises expenditures	(34,395,000)	(477,000)	-	-	-	(34,872,000)	(27,775,000)
Plant expenditures and debt retirement	-	-	-	-	(5,484,000)	(5,484,000)	(5,024,000)
Interest on indebtedness	-	-	-	-	(3,081,000)	(3,081,000)	(6,761,000)
Depreciation	-	-	-	-	(8,649,000)	(8,649,000)	(7,866,000)
Provision for doubtful loans, cancellations and notes returned to U.S. Government	-	-	(363,000)	-	-	(363,000)	(40,000)
Other deductions, refunds, amortization	-	(231,000)	(102,000)	(1,155,000)	(65,000)	(1,553,000)	(1,935,000)
Total Expenditures and Other Deductions	$ (229,410,000)	$ (94,468,000)	$ (465,000)	$ (1,155,000)	$ (17,279,000)	$ (342,777,000)	$ (334,656,000)
Transfers:							
Mandatory	$ (8,136,000)	$ 950,000	$ (234,000)	$ (700,000)	$ 8,120,000	$ 0	$ 0
Primary Government Appropriations	32,447,000	106,000	-	-	4,565,000	37,118,000	30,553,000
Other	(5,550,000)	4,115,000	(505,000)	(3,799,000)	5,739,000	0	0
Total Transfers	$ 18,761,000	$ 5,171,000	$ (739,000)	$ (4,499,000)	$ 18,424,000	$ 37,118,000	$ 30,553,000
Net Increase For The Year	$ 1,646,000	$ 13,085,000	$ 380,000	$ (1,449,000)	$ 10,459,000	$ 24,121,000	$ 7,536,000
Fund Balances, Beginning Of The Year	6,274,000	29,512,000	44,476,000	221,017,000	142,389,000	443,668,000	436,132,000
Fund Balances, End Of The Year	$ 7,920,000	$ 42,597,000	$ 44,856,000	$ 219,568,000	$ 152,848,000	$ 467,789,000	$ 443,668,000

STATE OF VERMONT
VERMONT STATE COLLEGES
COMBINED BALANCE SHEET
June 30, 2001
(With comparative totals for June 30, 2000)

	Current Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds
ASSETS:				
Cash and Short Term Investments	$ 3,378,838	$ -	$ 788,232	$ -
Investments	6,282,539	-	-	11,665,093
Receivables:				
Accounts (Net)	3,907,801	918,951	-	-
Loans (Net)	-	-	4,845,054	-
Accrued Interest	-	-	-	-
Other	-	-	16,196	-
Inventories	111,982	-	-	-
Prepaid Expenses	387,963	-	-	-
Due From Other Funds	-	1,430,729	-	-
Bond Issuance Cost	-	-	-	-
Land and Improvements	-	-	-	-
Buildings and Improvements	-	-	-	-
Furniture Fixtures, and Equipment	-	-	-	-
Construction-In-Progress	-	-	-	-
Total Assets	**$ 14,069,123**	**$ 2,349,680**	**$ 5,649,482**	**$ 11,665,093**
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts Payable	$ 631,400	$ -	$ -	$ -
Bonds and Notes Payable	-	-	-	-
Capital Lease Obligations	-	-	-	-
Accrued Interest	-	-	-	-
Accrued Expenses	3,696,426	-	-	-
Due To Other Funds	980,180	-	450,549	-
Deferred Revenues and Advanced Deposits	2,303,503	-	-	-
Total Liabilities	**$ 7,611,509**	**$ 0**	**$ 450,549**	**$ 0**
FUND BALANCES:				
General	$ 3,451,128	$ -	$ -	$ -
Designated	2,390,279	-	-	-
Net Investment In Plant	-	-	-	-
Auxiliary	616,207	-	-	-
Restricted	-	2,349,680	-	11,665,093
College's Portion	-	-	911,228	-
U.S. Government Portion	-	-	4,287,705	-
Total Fund Balances	**$ 6,457,614**	**$ 2,349,680**	**$ 5,198,933**	**$ 11,665,093**
Total Liabilities and Fund Balances	**$ 14,069,123**	**$ 2,349,680**	**$ 5,649,482**	**$ 11,665,093**

Plant Funds			Totals	
Unexpended	Retirement of Indebtedness	Investment in Plant	June 30, 2001	June 30, 2000
$ -	$ -	$ -	$ 4,167,070	$ 3,834,402
4,885,824	2,901,920	-	25,735,376	26,278,323
-	-	-	4,826,752	3,155,667
-	-	-	4,845,054	4,762,045
-	11,303	-	11,303	12,133
-	-	-	16,196	14,137
-	-	-	111,982	112,322
-	-	-	387,963	1,013,239
-	-	-	1,430,729	1,216,884
130,799	96,052	-	226,851	240,429
-	-	12,089,791	12,089,791	12,051,182
-	-	99,733,130	99,733,130	97,619,347
-	-	43,856,806	43,856,806	43,356,539
66,374	-	-	66,374	184,411
$ 5,082,997	**$ 3,009,275**	**$ 155,679,727**	**$ 197,505,377**	**$ 193,851,060**
$ -	$ -	$ -	$ 631,400	$ 1,967,671
1,853,052	-	19,552,653	21,405,705	22,136,494
-	-	195,522	195,522	267,649
-	409,899	-	409,899	420,603
-	-	-	3,696,426	3,408,174
-	-	-	1,430,729	1,216,884
-	-	-	2,303,503	2,727,555
$ 1,853,052	**$ 409,899**	**$ 19,748,175**	**$ 30,073,184**	**$ 32,145,030**
$ -	$ -	$ -	$ 3,451,128	$ 1,631,899
-	240,865	-	2,631,144	2,722,891
3,229,945	-	135,931,552	139,161,497	136,115,024
-	-	-	616,207	697,072
-	2,358,511	-	16,373,284	15,415,973
-	-	-	911,228	866,067
-	-	-	4,287,705	4,257,104
$ 3,229,945	**$ 2,599,376**	**$ 135,931,552**	**$ 167,432,193**	**$ 161,706,030**
$ 5,082,997	**$ 3,009,275**	**$ 155,679,727**	**$ 197,505,377**	**$ 193,851,060**

STATE OF VERMONT
VERMONT STATE COLLEGES
COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Unrestricted Funds					Totals	
	General Fund	Designated Fund	Auxiliary Fund	Total Unrestricted	Total Restricted	2001	2000
REVENUES:							
Education and General:							
Tuition and fees $	43,340,077 $	1,499,888 $	- $	44,839,965 $	- $	44,839,965 $	42,836,007
Federal and private grants	15,396	4,909,007	-	4,924,403	16,712,139	21,636,542	19,623,675
Investment income	1,190,974	7,054	-	1,198,028	15,534	1,213,562	723,379
Sales and services of educational departments	554,689	3,993,802	-	4,548,491	3,750	4,552,241	4,062,131
Change in fair value of investments	(1,957)	-	-	(1,957)	-	(1,957)	285,568
Other sources	179,085	467,948	-	647,033	33,615	680,648	1,213,019
Total educational & general $	45,278,264 $	10,877,699 $	0 $	56,155,963 $	16,765,038 $	72,921,001 $	68,743,779
Auxiliary enterprises	-	-	11,165,789	11,165,789	-	11,165,789	10,876,194
Total Revenues $	**45,278,264 $**	**10,877,699 $**	**11,165,789 $**	**67,321,752 $**	**16,765,038 $**	**84,086,790 $**	**79,619,973**
Expenditures and mandatory transfers:							
Instruction $	27,935,756 $	3,038,429 $	- $	30,974,185 $	794,438 $	31,768,623 $	29,201,663
Research	-	-	-	0	21,930	21,930	6,101
Public service	1,318,826	1,674,951	-	2,993,777	4,038,979	7,032,756	6,308,704
Academic support	8,974,160	2,921,586	-	11,895,746	1,990,557	13,886,303	12,992,343
Student services	3,502,115	1,668,867	-	5,170,982	935,815	6,106,797	5,842,898
Institutional support	13,680,652	1,691,860	-	15,372,512	192,559	15,565,071	17,568,215
Operation and maintenance of plant	6,177,219	70,535	-	6,247,754	12,723	6,260,477	5,570,260
Student financial aid	3,074,975	291,168	-	3,366,143	8,778,037	12,144,180	11,613,697
Mandatory transfers:							
Debt service	377,600	-	-	377,600	-	377,600	387,800
Loan fund matching grant	4,969	-	-	4,969	-	4,969	5,770
Total Educational & General $	65,046,272 $	11,357,396 $	0 $	76,403,668 $	16,765,038 $	93,168,706 $	89,497,451
Auxiliary enterprises:							
Expenditures $	- $	- $	8,109,306 $	8,109,306 $	- $	8,109,306 $	7,792,170
Mandatory transfers for debt service	-	-	1,433,600	1,433,600	-	1,433,600	1,419,800
Total Auxiliary Enterprises $	0 $	0 $	9,542,906 $	9,542,906 $	0 $	9,542,906 $	9,211,970
Total Expenditures and Mandatory Transfers $	65,046,272 $	11,357,396 $	9,542,906 $	85,946,574 $	16,765,038 $	102,711,612 $	98,709,421
Net Increase (Decrease) Before Other Transfers $	**(19,768,008) $**	**(479,697) $**	**1,622,883 $**	**(18,624,822) $**	**0 $**	**(18,624,822) $**	**(19,089,448)**
Excess of restricted receipts over transfers to revenues	-	-	-	0	998,537	998,537	635,367
Transfers from primary government	19,965,701	890,000	-	20,855,701	-	20,855,701	19,947,043
Other transfers, net	1,621,536	(518,933)	(1,703,748)	(601,145)	(541,438)	(1,142,583)	(1,614,542)
Net Increase For The Year $	**1,819,229 $**	**(108,630) $**	**(80,865) $**	**1,629,734 $**	**457,099 $**	**2,086,833 $**	**(121,580)**

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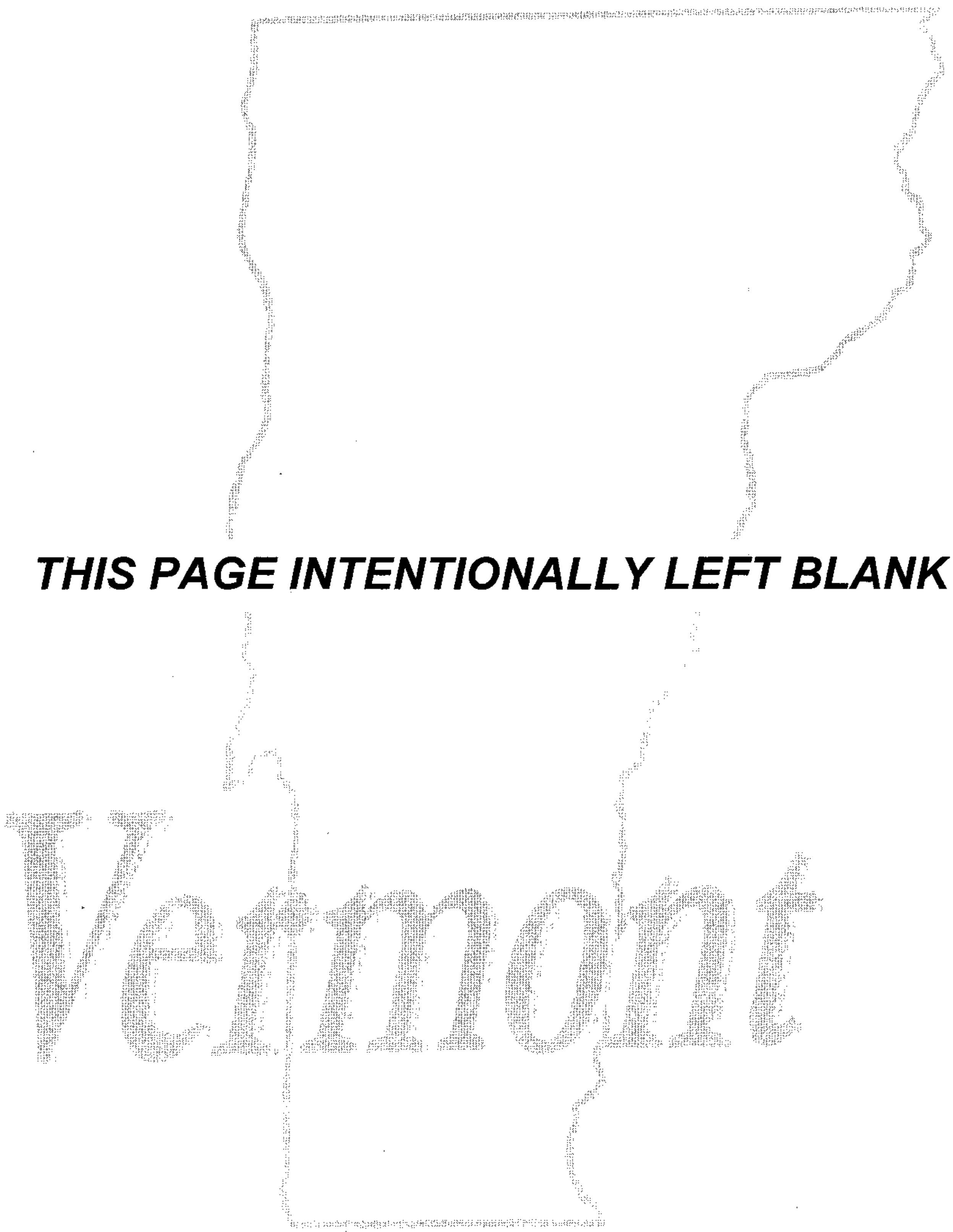

STATE OF VERMONT
VERMONT STATE COLLEGES
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(With comparative totals for the fiscal year ended June 30, 2000)

	Current Funds				
	Unrestricted Funds				
	General Fund	Designated Fund	Auxiliary Fund	Total Unrestricted	Total Restricted
Revenues and other Additions:					
Education and General	$ 65,245,922	$ 11,767,699	$ -	$ 77,013,621	$ 17,763,575
Auxiliary enterprises	-	-	11,165,789	11,165,789	-
Private gifts - restricted	-	-	-	0	-
Federal grants - restricted	-	-	-	0	-
Investment income, including student loan interest	-	-	-	0	-
Change in fair value of investments	(1,957)	-	-	(1,957)	-
Net additions to plant facilities, including $2,458,768 charged to current fund expenditures	-	-	-	0	-
Retirement of indebtedness	-	-	-	0	-
Other	-	-	-	0	-
Total revenues and other additions	**$ 65,243,965**	**$ 11,767,699**	**$ 11,165,789**	**$ 88,177,453**	**$ 17,763,575**
Expenditures and other deductions:					
Educational and general expenditures	$ 64,663,703	$ 11,357,396	$ -	$ 76,021,099	$ 16,765,038
Auxiliary enterprises expenditures	-	-	8,109,306	8,109,306	-
Student aid program	-	-	-	0	-
Expended for plant facilities, including non-capitalized expenditures of $513,853	-	-	-	0	-
Retirement of indebtedness	-	-	-	0	-
Interest on indebtedness	-	-	-	0	-
Other	-	-	-	0	-
Total expenditures and other deductions	**$ 64,663,703**	**$ 11,357,396**	**$ 8,109,306**	**$ 84,130,405**	**$ 16,765,038**
Transfers to (from) funds:					
Mandatory:					
Debt service	$ (377,600)	$ -	$ (1,433,600)	$ (1,811,200)	$ -
Perkins Loan Fund matching grant	(4,969)	-	-	(4,969)	-
Transfers From Primary Government	-	-	-	0	-
Other, net	1,621,536	(518,933)	(1,703,748)	(601,145)	(541,438)
Total transfers	**$ 1,238,967**	**$ (518,933)**	**$ (3,137,348)**	**$ (2,417,314)**	**$ (541,438)**
Net increase (decrease) for the year	$ 1,819,229	$ (108,630)	$ (80,865)	$ 1,629,734	$ 457,099
Fund balances at beginning of year	1,631,899	2,498,909	697,072	4,827,880	1,892,581
Fund balances at end of year	**$ 3,451,128**	**$ 2,390,279**	**$ 616,207**	**$ 6,457,614**	**$ 2,349,680**

		Plant Funds			Totals	
Loan Funds	Endowment & Similar Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	2001	2000
$ -	$ -	$ -	$ -	$ -	$ 94,777,196	$ 89,040,621
-	-	-	-	-	11,165,789	10,876,194
-	540,141	-	-	-	540,141	539,285
14,905	-	-	29,734	-	44,639	50,579
94,696	294,051	111,788	53,641	-	554,176	701,505
-	(466,270)	-	(3,098)	-	(471,325)	543,931
-	-	-	-	3,238,689	3,238,689	10,431,020
-	-	-	-	924,000	924,000	878,000
47,298	-	-	-	-	47,298	79,193
$ 156,899	$ 367,922	$ 111,788	$ 80,277	$ 4,162,689	$ 110,820,603	$ 113,140,328
$ -	$ -	$ -	$ -	$ -	$ 92,786,137	$ 89,103,881
-	-	-	-	-	8,109,306	7,792,170
29,088	-	-	-	-	29,088	36,651
-	-	782,891	-	803,368	1,586,259	3,426,838
-	-	-	924,000	72,127	996,127	945,703
-	-	166,968	970,407	14,811	1,152,186	1,191,799
41,373	-	16,133	27,188	531,942	616,636	1,448,899
$ 70,461	$ 0	$ 965,992	$ 1,921,595	$ 1,422,248	$ 105,275,739	$ 103,945,941
$ -	$ -	$ (47,001)	$ 1,858,201	$ -	$ 0	$ 0
4,969	-	-	-	-	0	0
-	100,000	81,299	-	-	181,299	108,500
(15,645)	32,290	1,039,000	-	86,938	0	0
$ (10,676)	$ 132,290	$ 1,073,298	$ 1,858,201	$ 86,938	$ 181,299	$ 108,500
$ 75,762	$ 500,212	$ 219,094	$ 16,883	$ 2,827,379	$ 5,726,163	$ 9,302,887
5,123,171	11,164,881	3,010,851	2,582,493	133,104,173	161,706,030	152,403,143
$ 5,198,933	$ 11,665,093	$ 3,229,945	$ 2,599,376	$ 135,931,552	$ 167,432,193	$ 161,706,030

STATE OF VERMONT
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001

Note 1: SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Reporting Entity:

For financial reporting purposes, the State of Vermont includes all funds, account groups, departments and agencies, commissions, and authorities of the State as well as legally separate agencies, commissions, authorities, and colleges and universities over which the State's executive, legislative and judicial branches exercise oversight responsibility. Oversight responsibility, as defined by the Governmental Accounting Standards Board (GASB)'s Codification of Governmental Accounting and Financial Reporting Standards, Section 2100 includes the following considerations:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

In addition, the following criteria were considered during the evaluation of the legally separate entities for inclusion as Component Units:

- The scope of public services as to whether its activity benefits the State and/or its citizens, and whether the activity is conducted within the geographic boundaries of Vermont and is generally available to Vermont residents.
- The existence of any special relationships regardless of whether the government exercises oversight responsibilities that would cause the State's financial statements to be misleading or incomplete if the entity's financial activity were omitted.

As required by generally accepted accounting principles, these financial statements present the State of Vermont's primary government, which consists of all the organizations that make up its legal entity, and its component units. Complete financial statements issued by the individual component units as indicated below, can be obtained from their respective administrative offices. Authorizing statutes and reporting fund type classifications have been included where applicable.

1. Blended Component Units

The following legally separate organizations provide services entirely or almost entirely to the State or otherwise exclusively or almost exclusively benefit the State. Therefore, these organizations' balances and transactions are reported as though they were part of the primary government.

a) Vermont Low Level Radioactive Waste Authority
(Special Revenue Fund) (10 VSA 7010 – Repealed)

The Vermont Low Level Radioactive Waste Authority was created by the Vermont Legislature to manage the collection, handling and disposal of low level radioactive waste generated through the operation of nuclear power plants (primarily Vermont Yankee) and as by-products of medical research and industrial wastes in Vermont. It was terminated by Section 4 of Act 137 of the Vermont General Assembly, 1994 Adjourned Session effective June 30, 1994 in anticipation of Vermont becoming a member of the Texas Low Level Radioactive Waste Compact upon the Compact's ratification by the United States Congress. As of June 30, 2001, the Texas Low Level Radioactive Waste Authority, which was due to be the successor organization to the Vermont Low Level Radioactive Authority (statutorily terminated at June 30, 1994) has been ratified by the United States Congress but no site in Texas has been identified.

2. Discretely Presented Component Units

These component units are entities which are legally separate from the State, and which are either financially accountable to the State or, whose relation with the State is such that exclusion would cause the state's financial statements to be misleading or incomplete. They are reported on three separate discrete columns that are labeled (1) Component Units - Other, (2) Vermont State Colleges, and (3) University of Vermont, to emphasize their separation from the State's primary government.

a) Component Units - Other

This category includes the following organizations:

1) Vermont Student Assistance Corporation
(Proprietary Fund Type) (16 VSA 2861)

The Vermont Student Assistance Corporation (VSAC) was established by the General Assembly to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. VSAC issues audited financial statement under separate cover. For further information, contact their administrative offices at the Champlain Mill, P.O.Box 2000, Winooski, Vermont. 05404-2601.

2) Vermont Educational and Health Buildings Financing Agency
(Governmental Fund Type) (16 VSA 3852)

This is a non-profit entity which finances or assists in the financing of projects for eligible educational or health related entities. It has a December 31 (annual) year-end and issues audited financial statements under separate cover. For further information, they can be contacted at 2 Spring St., P.O. Box 1219, Montpelier, Vermont. 05601-1219.

3) Vermont Housing and Conservation Board (VHCB)
(Governmental Fund Type) (10 VSA 311)

The Vermont General Assembly created and charged this non-profit organization with the two goals of (1) creating affordable housing for Vermont residents, and (2) conserving and protecting Vermont's agricultural land, historical properties, important natural areas, and recreational lands. VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 136 Main St., Drawer 20, Montpelier, Vermont. 05620-3501

4) Vermont Economic Development Authority
(Proprietary Fund Type) (10 VSA 213)

The Vermont Economic Development Authority (VEDA), formerly the Vermont Industrial Development Authority, was created by the Vermont Legislature for the purpose of promoting economic prosperity in the State by (1) directly financing eligible businesses and projects, including manufacturing, agricultural, and travel and tourism enterprises; and (2) operating programs which provide eligible borrowers with access to capital.

In 1983, VEDA incorporated a wholly owned Small Business Administration (SBA) Section 503 Certified Development Corporation (VT503) which is involved in providing loans under the "REAL and REAL II Programs" under the Vermont Intermediary Relending Programs.

During fiscal year 1995, the Authority was authorized by the Vermont General Assembly to incorporate a non-profit corporation to operate as the Vermont Small Business Development Corporation (VSBDC). The Authority contributed $50,000 to the capital of the VSBDC in order to secure a $1 million Farmers Home Administration Intermediary Relending Program loan.

Effective June 30, 1999 the Vermont General Assembly repealed the statute governing the Agricultural Finance Program ("AFP") and the Debt Stabilization Program ("DSP") and authorized the Authority to incorporate the Vermont Agricultural Credit Corporation ("VACC") and consolidate the assets and liabilities of both the AFP and DSP into it. The General Assembly appropriated $3.5

million to further capitalize the VACC.

VEDA also administers the State Infrastructure Bank and the Drinking Water State Revolving Loan Fund – Private Loans. These two funds are administered for the benefit of the State and are combined in the Authority's Agency Fund.

Audited financial statements or additional information for any of these entities may be obtained by contacting VEDA, 56 East State Street, Montpelier, Vermont 05602.

5) Vermont Municipal Bond Bank
(Governmental Fund Type) (24 VSA 4571)

The Vermont Municipal Bond Bank (VMBB) was established by the Vermont Legislature for the purpose of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for financing of public improvements or other purposes. The Bank is authorized to carry out this function by borrowing money and by issuing its own bonds and notes to obtain funds in order to purchase bonds and notes issued by local governmental units. It has a December 31 year-end and issues audited financial statements under separate cover.

VMBB also administers the Special Environmental Revolving Fund in accordance with 24 VSA 4753(b). This fund has a June 30 year-end and issues its own audited financial statements. For reporting purposes its financial statements have been blended into the State's Federal Fund Financial Statements in this CAFR.

Further information may be obtained by contacting VMBB at 2 Spring Street, P.O. Box 1219, Montpelier, Vermont 05601-1219.

6) Vermont Center for Geographic Information
(Governmental Type Fund) (10 VSA 121)

The Vermont Legislature established the Vermont Center for Geographic Information and charged it with creating a comprehensive strategy for the development and use of a geographic information system. Audited financial statements may be obtained by contacting them at the University of Vermont, 206 Morrill Hall, Burlington, Vermont 05405-0106.

7) Vermont Sustainable Jobs Fund, Inc
(Proprietary Fund Type) (10 VSA 326)

The Vermont legislature established a jobs program and directed that the Vermont Economic Development Authority (VEDA) set up a non-profit corporation to implement the program. Under the provisions of the above statute, VEDA is directed to establish policies and procedures in order to fulfill the goals listed in 10 VSA 326(a). Audited financial statements for the Vermont Sustainable Jobs Fund Inc may be obtained by contacting the Vermont Economic Development Authority, 56 East State Street Montpelier, Vt. 05602.

8) Vermont Transportation Authority (VTA)
(Proprietary Fund Type) (29 VSA 701)

The Vermont Transportation Authority was created by the Vermont Legislature pursuant to the acquisition, operation, or support of an authorized transportation facility as defined in 29 VSA 701, and as specifically authorized by the Vermont General Assembly. Its only current activity is managing the commuter rail line running from Shelburne, Vermont to Burlington, Vermont. In previous CAFRs, it was reported as a blended component unit. For fiscal year 2001 its discretely presented financial statements were not available and so have not been included in this report. In the future, it will issue audited financial statements that may be obtained by contacting it at 1 Main Street, Burlington, Vermont 05401.

9) Vermont Veterans' Home
(Proprietary Fund Type) (No. 180 of Acts of 1884)

The Vermont Veterans' Home was originally chartered in 1884 by the Vermont Legislature and officially incorporated on November 24, 1884. The home is overseen by a Board of Trustees that are appointed by the Governor. They issue their own audited financial statements. Additional information may be obtained by contacting the home at 325 North Street, Bennington, Vermont 05201.

b) University of Vermont (16 VSA 2281)

This reporting entity includes the financial activity of both the University of Vermont and the State Agricultural College. Its financial statements, which have been issued under separate cover, have been prepared on the accrual basis in accordance with generally accepted accounting principles as promulgated in the Industry Audit Guide for Colleges and Universities issued by the American Institute of Certified Public Accountants. Additional information may be obtained by contacting the University's administrative offices.

c) Vermont State College System (16 VSA 2171)

This reporting entity includes financial activity for the following organizations:

1) Community College of Vermont
2) Castleton State College
3) Johnson State College
4) Lyndon State College
5) Vermont Technical College
6) Vermont Interactive Television
7) Offices and Services

It issues audited financial statements under separate cover which are prepared on the accrual basis using the fund method of accounting. Additional information may be obtained by contacting the Office of the Chancellor, Vermont State Colleges, P.O. Box 359, Waterbury, Vermont 05676.

3. Joint Ventures

A joint venture is a legal entity or other contractual arrangement that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. The following list of entities shown with the statutes authorizing the State's participation has been classified as joint ventures. The financial activities of these organizations have not been included in the State's financial statements; however, see Note 15 for a summary of the financial activity of the Tri-State Lotto Commission.

a) Connecticut River Atlantic Salmon Committee (10 VSA 4654)
b) Connecticut River Valley Flood Control Commission (10 VSA 1153)
c) New England Board of Higher Education (16 VSA 2692)
d) New England Interstate Water Pollution Control Commission (10 VSA 1333)
e) Northeastern Forest Fire Protection Commission (10 VSA 2503)
f) Tri-State Lotto Commission (31 VSA 673)
g) Texas Low Level Radioactive Waste Disposal Compact (10 VSA 7013)

4. Related Organizations

Related Organizations are separate legal entities for which the primary government is accountable only because it appoints a voting majority of the board but for which it is not financially accountable. The following entities along with their authorizing statutes have been classified as related organizations and their financial activity has not been included in the State's financial statements.

a) Vermont State Housing Authority (24 VSA 4005)
b) Vermont Housing Finance Agency (10 VSA 611)

5. Excluded Organizations

The following entities have been determined not to be part of the reporting entity after applying the criteria of GASB Statement No. 14:"The Financial Reporting Entity"

a) Vermont Council on the Humanities
b) Vermont Council on the Arts
c) Vermont Historical Society
d) Vermont Public Power Supply Authority

These organizations are not included in the reporting entity because they are legally separate entities and the voting majority of their governing boards are not appointed by the State. They are not fiscally dependent on the State's primary government and exclusion from the financial reporting entity would not render Vermont's financial statements incomplete or misleading.

B. Fund Accounting and Fund Structure:

The State of Vermont's Accounting System is organized and operated on a fund basis. A fund is defined as an accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying-on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The accompanying financial statements are structured into three fund types and one account group. The general characteristics of the fund types and account group are as follows:

1. Governmental Fund Types:

a) General Fund: The General Assembly has established the General Fund as the basic operating fund of the State. As such, the General Fund is used to finance all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any other designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year.

b) Special Revenue Funds: Special Revenue Funds are used to account for revenues specifically earmarked to finance only particular or restricted programs and activities and include the following:

1) Transportation Fund: Transportation Fund revenues are used primarily for preservation, maintenance, and improvements to the transportation infrastructure, including highways, bridges, railroads, air, public transportation, and other related activities, as well as for maintenance and staffing of highway rest areas, construction of transportation capital facilities, and debt service for transportation facilities. In addition, 24.5% of the previous year's appropriations may be appropriated for support of the general government. This percentage decreases in fiscal year 2002 and beyond to 23%. The principal sources of revenue in this fund are motor fuel taxes, motor vehicle purchase and use tax, motor vehicle license and registration fees, traffic ticket revenue, other statutorily specified revenues, as well as reimbursements from the federal government for federal aid transportation projects.

2) Education Fund: This Fund was established by Act 60 and codified as 16 VSA 4025 to equalize statewide education funding requirements. Expenditures authorized for funding are codified in 16 VSA 4025(b) and may include only legitimate items of current education expense. Funding is described in 16 VSA 4025(a) and includes the following sources: Statewide Education Property Tax; State's portion of Local Share Property Tax; State Lottery revenues; percentages of the revenue from the Meals and Rooms Tax, Corporate Income Tax, Motor Fuel Tax on gasoline, Bank Franchise Tax, Purchase and Use Tax; and other reimbursements and fees. An Education Fund Budget Stabilization Reserve has also been established in accordance with the terms of 16 VSA 4026.

3) Fish and Wildlife Fund: Receipts are restricted by statute and can only be used for fish and wildlife purposes. The principal sources of revenue are license fees and federal grants.

4) Federal Revenue Fund: All federal grant receipts are recorded in the Federal Revenue Fund except for those federal funds specifically designated for transportation related or fish and wildlife purposes. Grants of the latter types are recorded in the State's Transportation Fund or Fish and Wildlife Fund, respectively.

5) Special Fund: This fund accounts for proceeds or specific revenues not categorized above that are legally restricted to expenditures for specified purposes.

c) **Capital Projects Funds:** These funds, consisting of the General Bond Fund and the Transportation Bond Fund, account for capital improvement expenditures. These appropriations are or will be primarily funded by the issue of State bonds.

2. Proprietary Fund Types:

a) **Enterprise Funds:** These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the cost (expenses, including depreciation) of providing goods or services to the public primarily through user charges. In some instances this fund type is utilized to periodically determine the revenues earned, expenses incurred, and/or that the amount of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

b) **Internal Service Funds:** These funds are used to account for the financing of goods or services provided by one state department or agency to other state departments or agencies, or to other governmental units. The objective is not to make a profit but rather to recover, over a period of time, the total cost of providing the goods and services.

3. Fiduciary Fund Types:

These funds account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds. These funds include the following:

a) **Pension Trust Funds:** These funds are used to account for the activities for the state-administered retirement systems.

b) **Non-expendable Trust Funds:** These funds are used to account for the activities of trusts whose income is used to fund the trust purpose but whose principal is to be maintained intact.

c) **Expendable Trust Funds:** These funds are used to account for the activities of trusts whose principal and income may be used for purposes of the trust.

d) **Agency Funds:** These funds are used to account for amounts held in trust for others. Agency Funds include such accounts as federal and state withholding taxes and other payroll deductions of state employees and applicable state matching contributions.

4. Account Groups:

a) **General Long Term Debt Account Group:** This account group is a self balancing set of accounts set up to provide management control and an accountability list of the unmatured general long term debt and other obligations of the State. This account group is not a fund and it does not measure the results of operations. It is concerned only with the measurement of financial position. The State of Vermont's General Long Term Debt Account Group includes long-term liabilities for the retirement of general obligation bonds, compensated leave, and net pension obligation.

b) **General Fixed Assets Account Group:** Contrary to generally accepted accounting principles, no accounting records are maintained and no statements are presented for the general fixed assets for governmental fund type operations of the State of Vermont.

C. Basis of Accounting:

1. All Governmental Funds, Expendable Trust Funds, Agency Funds, and Governmental Fund Type Discretely Presented Component Units:

These funds are accounted for utilizing the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the revenue can be reasonably determined and "available" means the amounts are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. Except for personal income taxes and federal grant revenues, the State considers all revenues available if they are collected within 60 days after fiscal year end. At June 30, 2001, the State considered as available, $40 million of payments for personal income taxes to be received by the State during the period January 1 to April 15, 2002. Federal grant revenues are recognized when the qualifying expenditures have been incurred. Revenue received by the State before it has a legal claim to it is recorded as deferred revenue.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources. In accordance with Section 1600.110 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the State recorded, at June 30, 2001 as a current liability, $42.8 million of estimated personal income tax refunds which will be paid out during fiscal year 2002.

2. Proprietary Funds, Pension Trust Funds, Non-expendable Trust Funds and Discretely Presented Proprietary Fund Type Component Units:

These funds are accounted for utilizing the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded at the time liabilities are incurred.

The State's Proprietary Funds have elected not to apply standards issued by the Financial Accounting Standards Board (FASB) after November 30, 1989. The proprietary funds have applied all applicable pronouncements issued by the Governmental Accounting Standards Board (GASB).

3. University Of Vermont (UVM) and The Vermont State College System (VSC):

These entities account for their activity using the accrual basis of accounting in accordance with generally accepted accounting principles set forth for public colleges and universities. VSC has elected not to apply standards issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.

4. GASB Statement # 33

In December 1998 the Governmental Accounting Standards Board issued statement #33 –Accounting and financial reporting for non-exchange transactions which establishes accounting and financial reporting for non-exchange transactions. This statement establishes standards for determining the timing of recognition of non-exchange transactions in the financial statements. Non-exchange revenues include Derived Tax Revenues such as sales and income taxes; Imposed Non-exchange Revenues such as property taxes; Government Mandated Non-exchange Transactions such as federal programs that state or local governments are required to perform; and Voluntary Non-exchange Transactions such as certain grants and private donations. The State adopted provisions of this statement for the Year ended June 30, 2001.

D. Budgetary Process:

The head of every State department, board or commission, and any officer or individual having in charge any activity for which funds are appropriated by the General Assembly, on or before September 1, preceding each biennium, is required to file with the Commissioner of Finance and Management statements showing in detail the amounts appropriated and expended for both the current and preceding fiscal year and the amount estimated for such activity to be necessary for the current and preceding fiscal year and the amount estimated for such activity to be necessary for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by November 15, preceding each biennium, the estimates as received together with any other estimates, for the two ensuing fiscal years. The Governor submits to the General Assembly, no later than the third Tuesday of every regular session, a budget which shall embody estimates, requests and recommendations for appropriations or other authorizations for expenditures from the state treasury for at least the succeeding fiscal year. The General Assembly then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years in accordance with Act 205 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the General Assembly to enact appropriations on an annual basis.

Budgets are prepared and appropriated on the cash basis usually at the program level. The Governor may amend appropriations within limits established by statute. The Agency of Administration maintains budgetary control by major object (i.e. personal services, operating expense, etc.) at the appropriation level. General, Transportation, Education, Special and Fish and Wildlife Funds' appropriation balances revert to fund balance at the end of each fiscal year unless authorized to be carried forward to the following year by legislative act. Unexpended balances of capital projects and federal revenue funds are available for expenditure in the following fiscal year.

The State also utilizes, to a limited degree, encumbrance accounting for governmental funds under which certain purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable unexpended appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balance. Reported encumbrances do not include all commitments.

E. Cash and Cash Equivalents:

Cash balances for most funds are deposited with the State Treasurer, except for the Pension Trust Funds, Capital Projects Funds, and the Single Deposit Investment Account Fund. Cash balances deposited with the State Treasurer are pooled together and available amounts beyond immediate cash requirements are invested in short term investments.

Income earned on the short-term investments is allocated to those funds authorized to receive it with the balance of the allocated income going to the General Fund.

Cash and cash equivalents as reported in the financial statements, include bank accounts, impress cash, short-term investments with an original maturity of three months or less such as certificates of deposit, commercial paper, federal government agencies discount notes, money market accounts, and repurchase agreements.

F. Receivables:

Receivables in the governmental funds consist primarily of accrued taxes, federal grants receivable, and notes receivable from component units. Personal income taxes receivable are primarily taxpayer-assessed taxes owed by the taxpayer for the period ended June 30, and which were received by the State during the following 10 months. These revenues are susceptible to accrual in accordance with measurable and available criteria under the modified accrual basis of accounting. Federal receivables are amounts due from the federal government to reimburse the State for expenditures incurred pursuant to federally funded programs. Notes Receivable in the General Fund consist primarily of advances in the form of Vermont Economic Development Authority (VEDA) notes purchased by the State. See Note 12 – Contingent and Limited Liabilities for further information. No allowances for non-collectible accounts have been recognized in these receivables as taxes receivable are substantially based on subsequent collections and the collection of amounts due from the federal government are reasonably assured.

The "Other Receivable" balance under the Fiduciary Fund Types – Trust and Agency column includes $104,154,683 for the Vermont State Retirement Fund, $15,070,562 for the Vermont Teacher's Retirement Fund and $5,281,720 for the Vermont Municipal Employees Retirement Fund. These receivable amounts represent monies due to the respective pension trust funds for investments sold prior to June 30, 2001, but for which the receipts were received subsequent to June 30, 2001.

G. Inventories:

Inventories of materials and supplies of governmental funds are recorded as expenditures when purchased. Inventories of the proprietary fund types are generally valued at the lower of average cost or market.

H. Fixed Assets and Depreciation:

General fixed assets are recorded as expenditures in the governmental funds when the assets are acquired. No accounting records are maintained and no statements are presented for governmental general fixed assets.

Fixed assets in the proprietary funds are capitalized at cost when acquired. Depreciation is calculated and recorded using the straight-line method and estimated useful lives of 20-50 years for buildings and improvements and 3-24 years for equipment, machinery, and furnishings.

When fixed assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements.

I. Payables:

The accounts payable amount consists of operating liabilities incurred prior to fund year-end (usually June 30) for which payment was due as of June 30; and for which payment will be made subsequent to June 30.

The "Other Liabilities" balance under the Fiduciary Fund Type – Pension Trust Funds - includes $120,464,904 for the Vermont State Retirement Fund, $14,344,147 for the Vermont Teachers' Retirement Fund, $23,122,499 for the Vermont Municipal Employees' Retirement Fund, and $2,004,375 to the Single Investment Deposit Account. These figures represent amounts due for securities purchased prior to June 30, 2001 but which were paid subsequent to June 30, 2001.

J. Accrued Liabilities:

Accrued liabilities consist of employee wages and related fringe benefit accruals earned as of June 30 but paid subsequent to June 30, calculated using the rate of pay in effect on June 30, 2001. Retainage payable consists of portions of progress payment amounts due to contractors that are being withheld and which will be paid by the State to the contractors upon final completion and acceptance of the contracted item or service.

K. Tax Refunds:

Tax refunds primarily represent amounts owed by the State to taxpayers because of overpayment of their 2000 calendar year and first and second quarter 2001 calendar year tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount of personal income tax refunds payable is comprised of estimates of overpayments of the first and second calendar quarters of 2001 tax liability and payments of 2000 calendar and prior year refunds. The remaining portion of tax refunds payable is comprised of payments made subsequent to the end of the fiscal year and estimates of the refund liability.

L. Reserve for Debt Service:

The General Fund reserved balance of $87,993 at June 30, 2001 is comprised of the following:

1. During fiscal year 1993, the State initiated a lawsuit to recover costs associated with asbestos removal. A settlement agreement between the contractor and State was reached which has resulted in net proceeds of $1,734,543 being credited to and reserved in the General Fund to meet future debt service obligations associated with the issuance of bonds relating to asbestos removal. The reserved amount is reduced annually through fiscal year 2009 in proportion to the repayment schedule of the bonds issued to refinance the asbestos removal. Public Act 178 of 1996 authorized the use of $860,874 of these funds in fiscal year 1996. The remaining reserved balance at June 30, 2001 is $87,993

M. Reserve for Human Services Caseload Management:

The Reserve for Human Services Caseload Management, established pursuant to Title 32 of the Vermont Statutes Annotated, Section 308b(a), was created to be available for appropriation to meet caseload-related needs at the Agency of Human Services. The Secretary of Administration may transfer to the reserve any general fund unexpended appropriations directly attributable to Aid to Needy Families with Children (ANFC) caseload reductions and the effective management of related federal receipts. During fiscal year 2001, $2,000,000 was transferred to the reserve, bringing the reserve balance to $18,048,618 at June 30, 2001.

N. Reserve for General Fund Surplus:

The Reserve for General Fund Surplus was established pursuant to Public Act 147 of 1998, Section 277(5) as amended by Public Act 1 of 1999, Section 88. The reserve is to be credited with the budgetary based surplus for the year ended June 30, 2001, as determined by the Commissioner of Finance and Management. The reserve shall not be expended except by specific appropriation of the general assembly. The reserve balance at June 30, 2001 is $4,347,360

O. Compensated Employee Absences:

Compensated absences include accumulated unpaid vacation, compensatory time, and personal leave credits. Liabilities related to proprietary fund types are recorded in the fund whereas compensated absences related to governmental funds are recorded in the General Long Term Debt Account Group.

Classified state employees may accrue vacation leave based on the number of years employed up to a maximum rate of 24-days a year, but may accumulate no more than a maximum of 45 days. At June 30, 2001, the State has a liability for employees' earned vacation credits totaling approximately $21,425,987 of which $20,434,836 was applicable to the governmental funds and which will be liquidated in future periods either as salary payments as vacation leave is taken or by cash payment upon termination of employment.

The State also has a personal leave and compensatory time total liability of approximately $4,370,874 at June 30, 2001 of which $4,191,158 was applicable to the governmental funds and which accumulates as earned by employees.

Employees have also earned sick leave credits that may only be liquidated if and when sickness or injury is incurred and which, therefore, do not represent a liability of the State. Employees accrue sick leave at a maximum rate of 21 days a year. There is no limit on the total accumulation of earned sick leave days. The accumulated amount of unused sick leave at June 30, 2001 is approximately $106,967,599 for all governmental funds.

The above amounts are calculated based on state employees' pay rates at June 30, 2001.

P. Interfund Transactions:

1. Interfund Loans: Short-term loans between funds outstanding at fiscal year-end for things such as cash overdrafts are recorded as Interfund Receivables/Payables. Advances To/From Other Funds represent long term interfund loans receivable and payable.

2. Reimbursements: Reimbursements result when one fund makes an expenditure/expense for a second fund when that expenditure or expense is properly applicable to the second fund. Reimbursement transactions reduce expenditures in the reimbursed fund and increase expenditures/expenses in the reimbursing fund.

3. Quasi-external Transactions: These transactions occur between two governmental funds that would be accounted for as revenue and expenditures/expenses as if they occurred between a government entity and a private sector entity.

4. Residual Equity Transfers: These transfers are defined as nonrecurring and non-routine transfers of equity between two funds.

5. Operating Transfers: These transfers encompass all types of transfers, except for the residual equity transfers, and are primarily routine transfers of appropriation resources between funds. Operating transfers are not revenue, expenditures, or expenses and are classified as "Other Funding Sources (Uses)" in the operating statements of the

Governmental funds and in a separate subsection before net income in the Proprietary fund types.

Q. Prepaid Expenses:

In the Governmental Type Funds, all purchases are recorded as expenditures when paid. In the Proprietary Funds, Non-expendable Trust Funds, and Pension Trust Funds certain payments reflect costs applicable to future accounting periods and are recorded as prepaid items.

R. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

S. Reclassifications:

Certain amounts in prior year financial statements have been reclassified to conform to the current year presentation.

T. Total Columns on Combined Statements:

Total Columns on the accompanying combined statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not portray present financial position or operating results nor does it reflect data comparable to a consolidation. Interfund transactions have not been eliminated.

Note 2: DEFICIT FUND BALANCES/RETAINED EARNINGS:

The following individual funds have deficit Fund Balances/Retained Earnings at June 30, 2001:

Enterprise Funds:

- Industrial Homework Office Fund: Although this fund has deficit retained earnings of $63,762 at June 30, 2001, it does not have a negative fund equity position at that date.
- Vermont Life Magazine Fund: Although this fund has deficit retained earnings of $556,452 at June 30, 2001, it does not have a negative fund equity position at that date.
- Federal Surplus Property Fund: Although this fund has a deficit retained earnings of $124,217 at June 30, 2001, it has a positive fund equity position of $199,498 at that date. This is compared to a negative fund equity position of $60,125 at June 30, 2000.

Internal Service Funds:

- State Liability Insurance Fund: This fund has deficit retained earnings of $191,892 at June 30, 2001. The State intends to eliminate this deficit through a rate adjustment.
- Workers' Compensation Fund: This fund has a deficit retained earnings of $3,305,614 at June 30, 2001. The State will eliminate this deficit through a rate adjustment.
- Property Management Fund: This fund has a deficit retained earnings of $2,065,079, which is the result of depreciating three buildings over 50 years which were purchased with 20 year capital bonds. This deficit is expected to increase into the near future and then will reverse and become positive once the bonds are amortized and the depreciation costs continue to be recovered.
- GOVnet Fund: This fund has a deficit retained earnings of $119,095 at June 30, 2001, a reduction of $57,986 as compared to the June 30, 2000 deficit. The State will continue to adjust the billing rates for GOVnet services to eliminate this deficit.

Note 3: **CASH, CASH EQUIVALENTS, AND INVESTMENTS:**

The State pools substantially all cash and investments of governmental, proprietary, and agency funds, except those which are maintained separately in accordance with legal restrictions. Separate cash and investment accounts are generally maintained for pension funds and capital projects funds. Each fund's equity share of the total pooled cash and investments and restricted assets are included on the accompanying balance sheets.

Schedule of Deposit and Investment Disclosures
June 30, 2001
Combined Balance Sheet

Cash and Cash Equivalents	$	1,070,368,299
Investments		2,806,375,650
Restricted Cash		4,433,184
Total	**$**	**3,881,177,133**
Deposits, Investments, and Reconciling Items		
Carrying Value of Deposits	$	430,693,845
Carrying Value of Investments		3,139,731,729
Cash on Hand		739,995
U.S. Treasury - Unemployment Account		310,011,564
Total	**$**	**3,881,177,133**

DEPOSITS:

The following statutory requirement and Treasury Department policy have been implemented to minimize risk associated with deposits. 32 VSA Sec. 431 establishes the requirements the State Treasurer must adhere to when depositing public monies. The statute sets parameters regarding the amount of funds that may be on deposit with any particular institution at any one time. Although not statutorily required, the State Treasurer requires State cash deposits to be collateralized with either United States Treasury securities or Vermont Municipal securities or a combination of same with a current market value equal to at least 102% of the amount of the deposit.

Deposits are classified as to credit risk by the three categories described below:

Category 1 Fully insured or collateralized with securities held by the State or its agent in the State's name.

Category 2 Collateralized with securities held by the pledging institution's trust department or its agent in the State's name.

Category 3 Uncollateralized.

At June 30, 2001, the State's deposits, listed by credit risk category, are shown in the following schedule:

	Categories			Bank	Reported
	1	2	3	Balance	Amount
Primary Government	$ 5,282,155	$ 14,498,673	$ 86,336,184	$ 106,117,012	$ 86,455,201
Component Units	1,755,625	12,138,025	335,475,105	349,368,755	344,238,644
Total	**$ 7,037,780**	**$ 26,636,698**	**$ 421,811,289**	**$ 455,485,767**	**$ 430,693,845**

INVESTMENTS:

Effective July 1, 1997, the State adopted provisions of GASB No.31, "Accounting and Reporting for Certain Investments and for External Investment Pools." GASB No.31 requires investments to be reported at fair value in the balance sheet.

The U.S. Treasury - unemployment account balance of $310,011,564 at June 30, 2001 is on deposit with the U.S.Treasury and is not categorized.

The disclosure of carrying (book) amounts by type of investment are classified in the following three categories of credit risk:

1. Insured, registered or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by counterparty's Trust Department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the State's name.

32 VSA 433 defines the parameters the Treasurer must adhere to when investing State monies. Types of investments the Treasurer may utilize include obligations of the United States, its agencies and instrumentalities, and any repurchase agreements whose underlying collateral consists of such obligations; certificates of deposit issued by banks and savings and loan associations approved by the Treasurer; prime banker acceptances; prime commercial paper; tax exempt securities; and domestic money market funds. The boards overseeing the various pension funds have adopted their own sets of investment guidelines.

At June 30, 2001 the State's investments, categorized by the credit risk categories listed above, are shown in the following schedule:

INVESTMENTS

	Categories 1	Categories 2	Categories 3	Carrying Amount
Primary Government				
Stocks	$ 1,236,677,191	$	$	$ 1,236,677,191
U.S. Government Securities	406,420,305			406,420,305
Corporate Bonds and Notes	559,483,252			559,483,252
Other Investments	171,417,595			171,417,595
Subtotals				$ 2,373,998,343
Not Categorized:				
Real Estate/Venture Capital				235,804,504
Mutual Funds				117,025,056
Lottery Annuity				888,931
Mortgages				91,573
Totals - Primary Government	$ 2,373,998,343	$ 0	$ 0	$ 2,727,808,407
Component Units				
U.S. Government Obligations	$ 64,534,299	$ 7,087,876	$ 50,982,724	$ 122,604,899
Corporate Bonds	17,607,451	4,417,000		22,024,451
Stocks	40,822,056			40,822,056
Other	18,549,043	169,780,634	38,142,239	226,471,916
Totals - Component Units	**$ 141,512,849**	**$ 181,285,510**	**$ 89,124,963**	**$ 411,923,322**
Totals - Reporting Entity				**$ 3,139,731,729**

Securities Lending Transactions

State statutes and boards of trustees policies permit the State of Vermont Treasurer's office to use investments of the three pension plans to enter into securities lending transactions - loans of securities to broker dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The pension plans' securities dealer, State Street Bank and Trust Company (State Street), is the agent in lending the plans' domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. At year-end the pension plans have no credit risk exposure to borrowers because the amounts the plans owe the borrowers exceed the amounts the borrowers owe the plans. The lending agent indemnified Vermont by agreeing to purchase replacement securities or to return cash collateral in the event borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay Vermont for income distributions by the securities' issuers while the securities were on loan. There were no losses during the Fiscal Year resulting from a default of the borrowers or State Street.

During the fiscal year, Vermont and the borrowers maintained the right to terminate all securities loans on demand. The cash collateral received on each loan was invested in collective investment pools with an average duration of 73 days at June 30, 2001. Because loans were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. On June 30, 2001, the collateral held and the market value of the securities on loan for Vermont was $214,724,461 and $209,750,675, respectively.

Below are the statutory references that allow the pension plans to participate in the securities lending program.

Statute Reference	Retirement Plan
3 VSA 471(m)	Vermont State Employees Retirement Fund
16 VSA 1942(q)	Vermont Teachers' Retirement Fund
24 VSA 5062(o)	Vermont Municipal Employees Retirement Fund

Note 4: SUMMARY OF PROPRIETARY FUND FIXED ASSETS:

A summary of Proprietary Fund's property, plant and equipment at June 30, 2001 is shown below:

	Enterprise	Internal Service
Land	$	$ 26,156
Buildings & Leasehold Improvements	41,850	
Machinery and Equipment	888,442	43,178,295
Accumulated Depreciation	(390,541)	(23,387,573)
Total	$ 539,751	$ 19,816,878

Note 5: RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS:

A. Retirement Plan Descriptions

Defined Benefit Retirement Plans

In accordance with State Statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and one defined contribution plan. These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension trust funds in the Trust and Agency fund type. There are no separate stand-alone financial statements issued for these plans.

The Vermont State Retirement System (VSRS) (3 VSA 455) is a single-employer public employee defined benefit retirement system which covers substantially all general state employees and State Police, except employees hired in a temporary capacity. Membership in the system is a condition of employment. The membership consists of:

(1) employees who belonged to the original contributory system (Groups A and D with a contribution rate of 5.1% of payroll and Group C with a contribution rate of 6.28% of payroll)

(2) vested members of the non-contributory system (Group E)

(3) members of the new contributory system (Group F) who contribute at a rate of 3.35% of payroll.

The State Teachers' Retirement System (STRS) (16 VSA 1931) is a cost sharing multiple-employer public employee retirement system. It covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the state board of education. Membership in the system for those covered classes is a condition of employment. The membership is made up of:

(1) contributory members from the old system (Group A) who contribute at a rate of 5.5%

(2) vested members of the non-contributory system (Group B)

(3) members of a new contributory system who contribute at a rate of 3.4% of covered payroll (Group C).

The State appropriates funding for pension costs associated with the above two plans. In fiscal years prior to 1982, both systems were solely contributory. Under legislation effective July 1, 1981, Vermont State employees and State teachers could elect to transfer their current memberships from a contributory to a non-contributory membership class (see Note 5 E. Single Deposit Investment Account). However, in 1990, the legislature again made both systems contributory effective July 1, 1990 for the STRS and January 1, 1991 for the VSRS. The State's contribution to each system is based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are calculated based upon the liabilities of each system as determined by actuarial valuations. Present law provides that each system's unfunded accrued liability will be amortized over 30 years. This amortization began July 1, 1988 and has 17 years remaining (the liability will be fully amortized in fiscal year 2018).

The Vermont Municipal Employees Retirement System (MERS) (24 VSA 1091) is a cost sharing multiple-employer public employees retirement system that is administered by the State Treasurer and its Board of Trustees. It is designed for school district and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employers is required to join the system upon the completion of three years of continuous service.

Prior to July 1, 1987, the State was statutorily responsible for contributions to the MERS's pension accumulation fund. Effective July 1, 1987 and thereafter, all payments to the system's pension accumulation fund are supported entirely by employer (municipal) and employee contributions. Employers make quarterly payments into the pension accumulation fund. These payments are percentages of annual earnable compensation for each membership group and consist of a "normal" and an "accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial evaluations.

Defined Contribution Retirement Plans

In accordance with Title 3 of the Vermont Statutes Annotated Section 500, the State established an optional defined contribution plan for exempt state employees effective January 1, 1999. The Vermont State Defined Contribution Plan is reported in the Pension Trust Funds.

The actuarial calculations were performed on a cost-neutral basis so that the accrued balances and liabilities were equivalent. 374 exempt employees representing approximately 45% of the eligible employees elected to transfer to the defined contribution plan. Assets totaling $21 million were transferred from the defined benefit plan to the defined contribution plan on January 4, 1999 as a result of the election. As the attendant decrease in liabilities in the defined benefit plan was equal to $21 million, there was no material effect on the financial health of the defined benefit system resulting from the transfer. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or defined contribution plan.

Employees are required to contribute at the rate equivalent to the contribution rate for Group F members of the VSRS. The State is required to contribute, to each employee's account, at the rate of 7% of the employee's compensation for each payroll period. An employee becomes vested in the plan after completion of 23 months of creditable service as a State employee. For the fiscal year ended June 30, 2001, plan member contributions were $534,168 and State employer contributions were $1,310,089. As of June 30, 2001, the Vermont State Defined Contribution Plan's net assets totaled $27,937,043 and there were 520 participants.

The Legislature granted authority to the Vermont Municipal Employees' Retirement System's Board of Trustees to establish a defined contribution plan that could be offered in lieu of the defined benefit plans currently available under the Municipal Retirement System. The board implemented a defined contribution plan that became available to new members effective July 1, 2000. The defined contribution plan was offered by municipal employers to one or more groups of their eligible employees. Once offered by the employer, each eligible employee was required to make an election to participate. Employees participating in one of the municipal defined benefit plans who elected to participate in the defined contribution plan had the July 1, 2001 actuarial value of their accrued defined benefit plan transferred to the defined contribution plan. Employers that did not offer the defined contribution plan to their employees as of December 31, 1999 will have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective the following year's July 1.

Participating municipal employees and their employers are required to contribute at the rate of 5%. Employees become vested in the plan after 12 months of service. For fiscal year ending June 30, 2001, plan participants and the municipalities each contributed $281,482 while members transferred $4,098,318 into the defined contribution plan from other pension plans. As of June 30, 2001, the Municipal Employees Defined Contribution Plan's net assets at fair value totaled $4,062,146.and there were 294 participants.

Copies of each individual defined benefit retirement plan's annual actuarial valuation report, information describing each defined benefit plan's provisions including vesting requirements, benefits provided, post retirement adjustments, etc., and information relating to the two defined contribution plans is available for inspection at the Office of Retirement and Social Security, 133 State Street, Montpelier, Vermont 05633-6901.

B. Plan Membership

At June 30, 2001, VSRS, STRS, and MERS membership consisted of:

	VSRS	STRS	MERS
Retirees and beneficiaries of deceased retirees currently receiving benefits	3,563	3,812	856
Terminated employees entitled to benefits but not yet receiving them (vested)	1,626	3,149	1,101
Active employees:			
Vested	5,149	7,388	2,125
Non-vested	2,438	2,876	2,689
Total active employees	7,587	10,264	4,814
Total participants	12,776	17,225	6,771

C. Schedules of Employer Contributions and Funding Progress

Below are listed the various actuarial methods and significant assumptions used to determine the annual required contributions.

	VSRS	STRS	MERS
Valuation date	06/30/01	06/30/01	07/01/01
Actuarial cost method	Entry age normal cost with frozen initial liability	Entry age normal cost with frozen initial liability	Projected benefit cost method
Amortization method	Level percentage of payroll	Level percentage of payroll	level percentage of payroll
Remaining amortization period	17 years	17 years	17 years
Asset valuation method	Actuarial value of assets using a five year smoothing technique	Actuarial value of assets using a five year smoothing technique	Actuarial value of assets using a five year smoothing technique
Actuarial assumptions			
Investment rate of return *	8.5%	8.5%	8.0%
Projected salary increases*	4.5%-7.8%	4.9%-8.9%	5.6%
Cost-of-living adjustments	2.25%-4.5%	2%-4%	2%-2.3%
* Includes inflation at 4.6%			
Post Retirement Adjustments			
allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C,D - 5%	Group A - 5%	N/A
allowances in payment for at least one year adjusted for cost of living based on one-half of CPI but not in excess of percentage indicated	Group F - 5%	Group C - 5%	Group A - 2% Group B,C - 3%

Schedule Of Employer Contributions

Year Ended 6/30	VSRS Annual Required Contribution	VSRS Percentage Contributed	STRS Annual Required Contribution	STRS Percentage Contributed	MERS Annual Required Contribution	MERS Percentage Contributed
1992	25,497,000	69.30%	28,595,000	51.12%	2,496,559	100.00%
1993	27,990,000	81.64%	28,820,000	69.02%	2,692,159	100.00%
1994	27,224,000	80.04%	25,805,000	79.75%	3,003,674	100.00%
1995	29,245,000	69.70%	27,452,000	65.86%	3,045,585	100.00%
1996	24,222,000	88.52%	28,712,000	39.98%	3,365,821	100.00%
1997	24,098,000	99.48%	30,722,000	58.85%	3,541,692	100.00%
1998	22,598,000	104.26%	26,927,000	67.14%	3,665,833	100.00%
1999	23,268,000	98.66%	20,724,000	87.24%	4,233,559	100.00%
2000	19,548,817	97.26%	19,936,345	93.23%	4,788,671	100.00%
2001	19,679,398	99.34%	20,970,278	91.29%	4,571,993	100.00%

Information for years prior to 1992 is not available.

Schedule of Funding Progress
(dollar amounts in 1000's)

Actuarial Valuation Date 6/30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSRS						
1992	364,628	609,139	244,511	59.9%	205,627	118.9%
1993	400,084	631,637	231,553	63.3%	210,032	110.2%
1994	428,678	665,427	236,749	64.4%	217,043	109.1%
1995	480,049	679,427	199,378	70.7%	225,089	88.6%
1996	560,659	664,173	103,514	84.4%	226,792	45.6%
1997	639,128	753,883	114,755	84.8%	227,000	50.6%
1998	733,716	804,501	70,785	91.2%	235,956	30.0%
1999	804,970	876,412	71,441	91.9%	238,281	30.0%
2000	895,151	967,064	71,913	92.6%	266,519	27.0%
2001	954,821	1,026,993	72,172	93.0%	278,507	25.9%
STRS						
1992	390,098	509,140	119,042	76.6%	312,347	38.1%
1993	433,327	555,220	121,893	78.1%	324,537	37.6%
1994	473,229	597,851	124,622	79.2%	335,155	37.2%
1995	520,850	648,052	127,202	80.4%	346,975	36.7%
1996	570,776	700,377	129,601	81.5%	355,895	36.4%
1997	717,396	849,179	131,783	84.5%	364,695	36.1%
1998	821,977	955,694	133,717	86.0%	357,899	37.4%
1999	931,056	1,066,400	135,344	87.3%	372,299	36.4%
2000	1,037,466	1,174,087	136,621	88.4%	387,999	35.2%
2001	1,116,846	1,254,341	137,496	89.0%	403,258	34.1%
MERS						
1992	44,379	45,331	952*	97.9%	52,000	1.8%
1993	52,536	51,292	(1,244)	102.4%	55,900	-2.2%
1994	60,646	59,251	(1,394)	102.4%	62,300	-2.2%
1995	70,082	67,039	(3,043)	104.5%	62,200	-4.9%
1996	81,396	73,401	(7,994)	110.9%	68,700	-11.6%
1997	96,197	85,686	(10,510)	112.3%	70,800	-14.8%
1998	113,678	102,005	(11,673)	111.4%	79,056	-14.8%
1999	137,454	114,481	(22,973)	124.6%	70,808	-32.4%
2000	161,900	138,697	(23,203)	116.7%	87,147	-26.6%
2001	177,928	158,786	(19,142)	112.1%	101,873	-18.8%

* Decrease from prior year due to change in actuarial cost method and asset valuation method

Information for years prior to 1992 is not available.

D. State of Vermont's Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation (NPO) to the Vermont State Retirement System and the State Teachers' Retirement System at June 30, 2001 were as follows:

	VSRS	STRS
Annual Required Contribution (ARC)	$19,679,398	$20,970,278
Interest on NPO	3,240,863	7,329,216
Adjustment to ARC	(3,344,544)	(8,412,300)
Annual Pension Cost (APC)	$19,575,717	$19,887,194
Employer Contribution Made	19,548,598	19,143,827
Increase (Decrease) in NPO	$27,119	$743,367
NPO - Beginning of Year	38,127,804	86,226,076
NPO - End of Year	$38,154,923	$86,969,443
Percentage of APC contributed	99.86%	96.26%

E. Single Deposit Investment Account

Public Act 41 of the 1981 Session authorized a new Group B non-contributory plan within the State Treachers Retirement System (STRS) and a new Group E non-contributory plan within the Vermont State Retirement System (VSRS). The Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan reported in the Agency Funds, was also established according to the provisions of this Act.

The STRS's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group B non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

(1) have both their accumulated employee contributions and accumulated interest returned to them; or
(2) have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
(3) have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

The VSRS's members in the Group A contributory plan could elect to either remain in the Group A plan or transfer to the new Group E non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

(1) have both their accumulated employee contributions and accumulated interest returned to them;
(2) have their accumulated contributions returned to them and only their accumulated interest invested by the the retirement board in the SDIA; or
(3) have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2001, there were 1,667 STRS members and 1,293 VSRS members, with total assets of $104,718,218. in the Single Deposit Investment Account Fund.

F. Other Post Employment Benefits

The State offers both post employment medical insurance and life insurance benefits in addition to providing pension benefits.

Employees retiring for any reason (disability, early, or normal) including the State Police, are entitled to receive medical coverage for themselves and their dependents over the lifetime of the retiree, with 20% of the cost to be paid by the retiree. If the retiree chooses the joint and survivor pension option, and predeceases his or her spouse, the medical benefits also continue for the spouse, along with the pension. However, generally, the surviving spouse must pay 100% of the cost.

In the case of life insurance, if a state employee retires or terminates due to disability prior to age 60, and proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. At that time, if the retiree has a total of 20 years or more of active and retired (while receiving disability) service, life insurance automatically changes to $5,000 fully paid and 100% of the premium is paid by the State.

Note 6: FUND BALANCE RESERVES

Fund balance reserves are those portions of fund balance that are not appropriable for expenditure or that are legally segregated for a specific future use. Fund Balances reserved at June 30, 2001 are as follows.

Primary Government Funds	General	Special Revenue	Capital Projects	Trust and Agency
Reserved for:				
Encumbrances	$ 2,058,986	$ 1,690,406	$ 3,781,371	$
Budget Stabilization	43,019,120	29,881,575		
Debt Service	87,993			
Endowments, Claims & Distributions				31,961,572
Employee Retirement Benefits				2,408,028,810
Unemployment Compensation Benefits				316,719,440
Contingencies				228,264
Advances and Notes Receivable	18,612,388			
General Fund Surplus	4,347,360			
Human Services Caseload Management	18,048,618			
Total Primary Government Fund Balances Reserved	$ 86,174,465	$ 31,571,981	$ 3,781,371	$ 2,756,938,086

Discretely Presented Component Units	Other	Vermont State Colleges	University of Vermont
Reserved for:			
Encumbrances	$ 19,296,552	$	$ 2,576,000
Debt Service			6,576,000
dowments, Claims & Distributions		12,281,300	219,568,000
Contingencies			
Total Component Units Fund Balances Reserved	$ 19,296,552	$ 12,281,300	$ 228,720,000

Note 7: LEASE COMMITMENTS:

Operating Leases

The State is committed under various operating leases covering real property (land and buildings) and equipment. Although lease terms vary, certain leases continue subject to appropriation by the General Assembly. If continuation is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting purposes.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment:

Fiscal Year	Non Cancelable Leases	Cancelable Leases	Primary Government Totals	Vermont State Colleges	University Of Vermont	Vermont Student Assistance Corporation	Total Reporting Entity
2002	$ 4,416,408	$ 268,627	$ 4,685,035	$1,513,181	$919,632	$628,000	$ 7,745,848
2003	3,693,792		3,693,792	978,741		430,000	5,102,533
2004	2,956,025		2,956,025	736,546		165,000	3,857,571
2005	2,424,211		2,424,211	605,851			3,030,062
2006	1,619,036		1,619,036	491,493			2,110,529
Thereafter	4,113,350		4,113,350	1,054,760			5,168,110
Totals	$19,222,822	$ 268,627	$19,491,449	$5,380,572	$919,632	$1,223,000	$27,014,653

Capital Leases

The future minimum lease obligation and the net present value of the minimum lease payments as of June 30, 2001 are as follows:

Fiscal Year	Vermont State Colleges	Total Reporting Entity
2002	$86,939	$86,939
2003	43,105	43,105
2004	34,338	34,338
2005	34,338	34,338
2006	20,028	20,028
Thereafter	0	0
Total Minimum Lease Payments	$218,748	$218,748
Less amount representing interest	(23,226)	(23,226)
Present value of minimum lease payments	$195,522	$195,522

Note 8: GENERAL OBLIGATION BONDS AND NOTES PAYABLE:

General obligation bonds and notes payable have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correctional facilities, environmental conservation purposes, maintenance and construction of highways and assistance to municipalities for construction of water and sewage systems and local schools. Also, bonds have been authorized and issued to refund outstanding general obligation bonds.

Once authorized by the legislature, the State Treasurer, with the approval of the Governor, may issue general obligation bonds. Except for zero coupon capital appreciation bonds, the bonds are to be payable in substantially equal or diminishing amounts, the first such payment to be payable not later than five years after the date of the bonds, and the last such payment to be made no later than twenty years after the date of the bonds.

Changes in bond and note principal payable during fiscal year 2001 are summarized as follows:

				General Obligation Bonds
Balance July 1, 2000			$	527,299,605
Additions:				
Issuances	$	0		
Accretions		3,728,753		
Total				3,728,753
Deductions:				
Principal repayments	$	50,585,000		
Total				(50,585,000)
Balance June 30, 2001			$	480,443,358

During fiscal years 1991, 1992, and 1994, the State issued zero coupon capital appreciation bonds. Zero coupon capital appreciation bonds are bonds issued at a discount to their face value. Instead of interest being paid on a periodic (i.e. semi-annual) basis, an increase in the principal due (accreted amount) is recognized on a regular basis. The total accreted amount at maturity will be the face value of the bonds.

On December 1,1993, the State issued capital appreciation bonds with a maturity value of $32,625,000 maturing on August 1 in the years 1999 through 2013. Proceeds from these bonds totaled $17,987,640. At June 30, 2001, the accreted value of these bonds was $20,443,958.

On October 30,1991, capital appreciation bonds with a maturity value of $20,575,000 were issued. These bonds mature on October 15 in the years 1996 through 2011. Proceeds from these bonds totaled $9,999,837 and have an accreted value of $10,159,752 at June 30, 2001.

During fiscal year 1991, capital appreciation bonds were issued with a maturity value of $48,935,000 and are scheduled to mature on December 1 in the years 1995 through 2010. Proceeds from these bonds totaled $19,310,002 and have an accreted value of $28,949,648 at June 30, 2001.

Future general obligation debt service requirements at June 30, 2001 are as follows:

Fiscal Year	Current Interest Bonds Principal	Current Interest Bonds Interest	Capital Appreciation Bonds	Total
2002	41,155,000	20,663,811	7,380,000	69,198,811
2003	40,650,000	18,552,201	8,020,000	67,222,201
2004	37,230,000	16,634,106	8,230,000	62,094,106
2005	34,065,000	14,883,407	7,400,000	56,348,407
2006	32,285,000	13,195,704	7,410,000	52,890,704
Thereafter	235,505,000	57,052,591	43,560,000	336,117,591
Totals	$ 420,890,000	$ 140,981,820	$ 82,000,000	$ 643,871,820

At June 30, 2001, there remained $51,000,868 of authorized but unissued General Obligation Bonds.

* See following page for schedule of General Obligation Bonds outstanding at June 30, 2001.

Note 9: PRIOR YEARS' BOND REFUNDINGS:

During the fiscal years 1992, 1993, 1994, and 1998, the State of Vermont defeased "in-substance" certain general obligation bonds by issuing new bonds and by placing the proceeds of these new bonds in an irrevocable trust. These trust assets will be utilized to make all future debt service payments on the old bonds. Accordingly, these trust assets and the liability for the old (now defeased) bonds are not included in the State's financial statements. As of June 30, 2001, $58,740,000 worth of defeased bonds remain outstanding.

General Obligation Bonds outstanding at June 30, 2001 are comprised of the following issues:

Date Issued	Date Series Matures	Interest Rates %	Amount of Original Issue	General Fund	Transportation Fund	Special Fund	Total
				Maturity Value of Bonds Outstanding			
				Sources of Payments			
General Obligation Current Interest Bonds:							
12/01/90	02/01/10	6.4 to 6.5	$ 65,000,000	$ 3,552,000	$ 148,000	$	$ 3,700,000
10/01/91	08/01/04	4.7 to 6.0	23,040,000	2,375,000	110,000		2,485,000
02/01/92	02/01/12	5.0 to 7.5	49,285,000	3,420,000	1,480,000		4,900,000
08/01/92	08/01/08	3.0 to 5.75	71,280,000	31,310,000	2,095,000		33,405,000
08/01/93	02/01/12	3.0 to 5.0	58,415,000	48,680,000	5,380,000		54,060,000
10/15/93	04/15/08	3.7 to 6.6	85,000,000	49,406,500	2,593,500		52,000,000
11/15/94	01/15/14	5.6 to 7.0	70,000,000	17,207,900	347,100		17,555,000
12/01/95	01/15/15	4.875 to 5.125	60,000,000	44,200,000			44,200,000
11/20/96	01/15/16	5.0 to 5.125	38,000,000	30,000,000			30,000,000
12/12/96	01/15/16	3.7 to 5.6	15,000,000	11,840,000			11,840,000
10/15/97	01/15/17	4.5 to 5.0	28,500,000	22,419,789	1,580,211		24,000,000
12/03/97	01/15/17	3.9 to 5.2	14,990,000	12,620,000			12,620,000
03/15/98	01/15/14	4.25 to 5.0	64,575,000	44,117,888	2,967,112	13,045,000	60,130,000
05/01/98	01/15/17	4.5 to 5.0	7,755,000			6,770,000	6,770,000
11/23/98	01/15/18	4.5 to 4.75	26,630,000	23,238,588	581,412		23,820,000
12/22/98	01/15/04	3.6 to 4.0	7,655,000	4,590,000			4,590,000
11/01/99	02/01/19	4.5 to 6.5	32,000,000	30,315,000			30,315,000
12/16/99	02/01/10	4.55 to 5.05	5,000,000	4,500,000			4,500,000
Total General Obligation Current Interest Bonds....				**$ 383,792,665**	**$ 17,282,335**	**$ 19,815,000**	**$ 420,890,000**
General Obligation Capital Appreciation Bonds:							
12/13/90	12/01/10	N/A	19,310,002	$ 40,290,000			$ 40,290,000
Maturity Value of Capital Appreciation Bonds			48,935,000				
10/30/91	10/15/11	N/A	9,999,837	14,135,000			14,135,000
Maturity Value of Capital Appreciation Bonds			20,575,000				
12/01/93	08/01/13	N/A	17,987,640	27,575,000			27,575,000
			32,625,000				
Total Maturity Value of Capital Appreciation Bonds Outstanding....				**$ 82,000,000**			**$ 82,000,000**
Less: Unaccreted Interest				22,446,642			22,446,642
Total General Obligation Capital Appreciation Bonds....				**$ 59,553,358**			**$ 59,553,358**
Total General Obligation Bonds....				**$ 443,346,023**	**$ 17,282,335**	**$ 19,815,000**	**$ 480,443,358**

Note 10: ACCOUNTING METHOD CHANGES AND FUND EQUITY RESTATEMENTS:

The beginning fund balance in the General Fund has decreased due to the reclassification of Vermont Veterans' Home to a discretely presented component unit.

The beginning fund balance in the Special Revenue Funds has decreased due to the net effect of the reclassification of Adaptive Equipment Loan Fund to an Enterprise Fund and the correction of a prior period error in the Universal Service Fund.

The Enterprise Funds' beginning retained earnings balance has increased due to the reclassification of the Adaptive Equipment Loan Fund and the Municipal Equipment Loan Fund from a Special Fund and an Internal Service Fund, respectively.

The beginning retained earnings in the Internal Service Funds has decreased due to the reclassification of the Municipal Equipment Loan Fund to an Enterprise Fund.

The Agency Funds' beginning Assets and Liabilities have decreased by $533,735 due to the reclassification of the Vermont Veterans' Home to a discretely presented component unit.

The Component Units - Other retained earnings have increased due to the Vt Economic Development Authority's adoption of Governmental Accounting Standards Board Statement 33, and due to the reclassification of the Vermont Veterans' Home from primary government to a discretely presented component unit.

	Retained Earnings/Fund Balance/Net Assets, July 1	Reclassification of Fund	Change in accounting method	Correction of prior period error	Retained Earnings/Fund Balance/Net Assets, July 1, as restated
General Fund	$ 169,140,895	$ (425,877)	$ -	$ -	$ 168,715,018
Special Revenue Funds					
Special Fund	$ 29,858,125	$ (329,666)	$ -	$ 170,160	$ 29,698,619
Enterprise Funds					
Adaptive Equipment Loan Fund	$ 0	$ 199,573	$ -	$ -	$ 199,573
Municipal Equipment Loan Fund	$ 0	$ 501,141	$ -	$ -	$ 501,141
Internal Service Funds					
Municipal Equipment Loan Fund	$ 501,141	$ (501,141)	$ -	$ -	$ 0
Component Units - Other					
Vt Economic Development Authority	$ 26,259,746	$ -	$ 2,609,895	$ -	$ 28,869,641
Vt Veterans' Home	$ 0	$ 555,970	$ 5,241,301	$ -	$ 5,797,271

Note 11: SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

The State reports seven enterprise funds relating to sales of lottery tickets, liquor, Vermont Life Magazine, and related products, industrial homework products, federal surplus property, adaptive equipment loans, and municipal equipment loans. Segment Information for the year ended June 30, 2001 is as follows:

	Vermont Lottery Commission	Liquor Control Fund	Vermont Life Magazine	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	$ 81,240,420	$ 31,713,114	$ 2,506,525	$ 332,748	$ 115,792,807
Depreciation Expense	56,472	233,620	64,668	0	354,760
Operating Income (Loss)	16,392,627	381,044	(80,556)	19,577	16,712,692
Operating Transfers In (Out)	(16,950,084)	(327,000)	0	0	(17,277,084)
Net Income (Loss)	11,777	(444,186)	(51,480)	43,654	(440,235)
Property, Plant & Equipment					
Additions	98,031	197,804	23,751	0	319,586
Deletions	316,867	1,648,099	238,049	0	2,203,015
Net Working Capital	540,303	176,528	51,607	2,941,313	3,709,751
Total Assets	6,315,473	5,244,572	1,194,375	3,690,844	16,445,264
Total Equity	397,531	559,051	81,682	3,556,203	4,594,467

Note 12: CONTINGENT AND LIMITED LIABILITIES:

CONTINGENT LIABILITIES

Vermont Economic Development Authority:

In 1974, the General Assembly created the Vermont Industrial Development Authority, renamed it the Vermont Economic Development Authority ("VEDA" or the "Authority") in 1993; and transferred the functions and the responsibilities of the Vermont Industrial Building Authority, Industrial Park Authority, and the Vermont Industrial Aid Board to it. Each of these original entities was relegated to a particular segment of industrial development. The Authority was established as a body corporate and politic and a public instrumentality of the State. It is governed by a twelve member board which consists of the Secretary of Commerce & Community Development, the State Treasurer, the Commissioner of Agriculture, Food and Markets, and nine public members appointed by the Governor with the advice and consent of the Senate.

The Authority has the power to insure up to $15 million of mortgages made by lenders for the purchase of land and construction of industrial building facilities in the State; to finance the purchase of machinery and equipment; and to provide working capital. The refinancing of existing mortgages is also possible under the act that created the Authority. As of June 30, 2001, the Authority had mortgage insurance contracts totaling $4,250,148. The full faith and credit of the State is pledged to support these activities of the Authority.

The Authority is authorized to reimburse lenders participating in the Vermont Financial Access Program for losses incurred on loans that the lender registers with the Authority. The full faith and credit of the State is pledged in an amount equal to the reserve premium payment deposited by the participating lenders for each registered loan, with the aggregate amount of credit that may be pledged not to exceed $2 million at any one time. The State's contingent liability at June 30, 2001 was $873,549. The State's net cash contribution since inception is $259,662.

Under provisions of the statutes governing VEDA, the State has loaned VEDA funds by purchasing its notes. The funds borrowed by VEDA were loaned to borrowers of VEDA in accordance with the purposes defined by the applicable statutes. On June 30, 1997, $13,500,000 of then outstanding notes were restructured into a 20-year debt obligation to be paid to the State by VEDA at a rate of 4.55%. The repayment is to be made from the principal and interest cash flows of certain Subchapter 3 and Subchapter 5 loans. The debt is subordinate in all respects to the repayment of $16,800,000 of taxable revenue bonds that were issued to create the leverage reserve fund noted below. As of June 30, 2001 there were $10,400,000 of these bonds still outstanding. At June 30, 2001, there was $13,116,783 still outstanding on the note. As part of the June 30, 1997 restructuring, it was agreed that $5,500,000 in notes would be repaid to the State to the extent possible from the receipts of certain Subchapter 3 and Subchapter 5 loans and other real estate acquired through foreclosure not pledged as security for the taxable revenue bonds. At June 30, 2001, $3,840,092 remained outstanding on these notes.

The 1999 General Assembly created the Vermont Agricultural Credit Corporation ("VACC") to be operated by the Authority. The VACC assumed all of the assets and liabilities of the Family Farm Debt Stabilization Program ("DSP") and the Agriculture Finance Program (AFP"). These programs were previously administered by the Authority. In 1988, the DSP borrowed $20,000,000 from a group of Vermont banks. A pledge of the full faith and credit of the State secured the repayment of the debt. In 1996, the authority borrowed an additional $2,000,000 from a single Vermont bank, also secured by the pledge of the full faith and credit of the State. As of June 30, 2001, the Authority had $2,472,171 outstanding on these obligations. The State Treasurer also holds $2,500,000 in notes for the VACC that funded loans under the AFP and DSP. The notes were made in 1994 for a term of 20 years and carry an interest rate of 4.55%. As of June 30, 2001, the outstanding amount of these notes was $1,700,000.

The Authority has established a commercial paper program to fund loans made under the Subchapter 3 and Subchapter 5 programs in an amount aggregating up to $40 million. The Subchapter 3 program provides loans to local and regional development corporations while the Subchapter 5 program provides direct loans to businesses. The company's commercial paper for these purposes is supported by a direct-pay letter of credit from a bank. The direct-pay letter of credit is secured from various repayment sources, including a $16 million leverage reserve fund held by a trustee and a debt service reserve pledge from the State of Vermont in an amount not to exceed $25 million. This debt service pledge is based on a similar structure utilized by both the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency. The amount of commercial paper outstanding under this program at June 30, 2001 was $19,950,000.

Federal Grants:

The State receives federal grants that are subject to audit and review by federal grantor agencies. This could result in expenditure being disallowed under the terms of the grants. However, it is believed that required reimbursements resulting therefrom would not be material.

LIMITED LIABILITIES

Vermont Municipal Bond Bank:

The State has a limited liability for the Vermont Municipal Bond Bank. The Bank is required to maintain debt service reserve funds. Title 24, V.S.A., Section 4675 requires the State to provide annual appropriations to restore the reserve funds to the required minimum balance, if necessary. It has never been necessary for the State to appropriate money to the reserve fund and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency:

The State has a limited liability for the Vermont Housing Finance Agency. The Agency may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 632. Annually, the Agency must report to the State the amount necessary to bring reserve fund balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve fund and it is not anticipated that any appropriation will have to be made.

Note 13: LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights actions, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. However, based on information provided by the Attorney General, it is believed that any ultimate liability to the State resulting from these suits, not covered by various insurance policies, would not materially affect the State's overall financial condition.

Note 14: BUDGET STABILIZATION RESERVES

The 1993 Legislature amended action taken by the 1987 Legislature by repealing legislation creating the Budget Stabilization Trust Fund and created separate Budget Stabilization Reserves within both the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve was created by the 1999 Legislature. These reserves were created to reduce the effects of annual variations in state revenues upon these funds by reserving certain surpluses of revenues.

The reserves balances will consist of any unreserved undesignated surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the general assembly. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. Pursuant to action taken by the Legislature, the Transportation Fund's Budget Stabilization Reserve at June 30, 2001 was $8,882,450, the General Fund's Budget Stabilization Reserve was $43,019,320 at June 30, 2001, and the Education Fund's Budget Stabilization Reserve at June 30, 2001 was $20,999,125.

Note 15: JOINT VENTURE

The State of Vermont has entered into a Tri-State Lotto Compact with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery Commission which is an interstate body, both corporate and politic, serving as a common agency of the party states and representing them both collectively and individually in the exercise of its powers and duties. The commission is composed of one member from each of the party states. Each state's lottery commission appoints one of its members to this position. The three-member commission annually elects a chairperson from among its members. The commission is empowered to operate and administer Tri-State Lotto and to promulgate rules and regulations governing the establishment and operation of the lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the commission. Fifty percent of the gross sales from each state are aggregated in a common prize pool, and operating costs are charged proportionally to each of the party states. The remaining revenues generated within each state remain in that particular state.

At June 24, 2001, the commission had total assets of $246,453,152 and total liabilities of $225,942,261. For the fiscal year ended June 24, 2001, the commission has operating revenues of $80,673,221, interest income of $747,425, commissions, fees, and bonus expenses of $9,796,671, prize awards of $40,168,307, and other operating expenses of $4,627,536. During the fiscal year, the commission made operating transfers to member states of $26,872,132, which includes $1,994,973 transferred to Vermont.

Note 16: RISK MANAGEMENT

A. Worker's Compensation and Liability Risk Management

The Risk Management Division of the Department of Buildings and General Services administers all risk management for State government except for the Health and Life Insurance plans listed below. It is the policy of the State to minimize purchases of commercial insurance for most of the risks to which the State is exposed. The Risk Management Division sets aside assets and pays claims utilizing the following three Internal Service Funds:

Worker's Compensation Self Insurance Fund
State Liability Self Insurance Fund
Risk Management- All Other Fund (used for the purchase of commercial insurance)

The Worker's Compensation Fund is required by state statute to insure all state governmental and quasi-governmental entity's employees upon request. The State has unlimited exposure to liability and has not purchased any stop-loss insurance to limit this exposure. The review of this liability including an actuarial evaluation of incurred but not reported claims (IBNR) is conducted annually. Claims, all of which are processed by Risk Management Division personnel, are audited annually by outside claims adjusters to ensure that claims' statistical information used to calculate the State's Worker's Compensation exposure is reliable. The contribution required to fully fund losses is calculated by an outside actuary. Allocation to each participating entity who has covered employees is done by the Risk Management Division, utilizing exposure and departmental experience factors.

The State Liability Insurance Fund covers both general, employment practices liability, discrimination, and auto liability risk. The coverage is comparable to standard private commercial policies. It offers coverage to the same group of participants as those covered by the Worker's Compensation plan above. Its exposure to risk in Vermont is subject to the Doctrine of Sovereign Immunity and is governed by Title 12 VSA 5601, etc while its exposure outside of Vermont is potentially unlimited. It is self-insured for the first $250,000 of exposure and has purchased excess commercial insurance to cover the additional per occurrence exposure in amounts of up to $1,000,000 in Vermont and $10,000,000 outside of Vermont. A Third Party Administrator (TPA) administers all claims other than minor property damage claims which are administered by the division. The Risk Management Division calculates the contribution necessary to fund the coverage utilizing both an exposure rating basis and an experience rating factor for each participating entity. The liability loss projections and the claims processing data are audited annually by outside claims adjusters.

The Risk Management-All Other Fund provides insurance coverage through purchased commercial policies for risks not covered in the above funds or which are self assumed. This coverage provides insurance for state-owned real property, bonds for various categories of employees, robbery and burglary coverage for the Federal food stamp program, errors and omissions coverage for judges, and various other miscellaneous coverage. The State's liability exposure is limited to the amount of the various deductibles associated with the respective coverage. Premium charges from the various insurers plus a 5% surcharge to cover state administration costs are either assessed directly against the entity specifically requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Entities eligible for coverage are the same as those listed above for the other funds.

B. Health Care and Life Insurance Plans

The Employee Benefits and Wellness (Benefits) Division of the Department of Personnel maintains medical, dental, life insurance, and employee assistance program plans for the benefit of current employees, retirees, ex-employees, legislators, and employees of outside groups which have been declared eligible to participate by statute.

The medical plan offerings in FY2001 included two Health Maintenance Organization (HMO) plans: the Mohawk Valley Plan (MVP) and the TVHP Blue Care. A self-funded indemnity fee-for-service (Choice Plus) plan is also offered. It is administered by Blue Cross/Blue Shield of Vermont. Participating employees share the premium cost of the plans with the State. The employees participating in all of these plans include all of the categories listed above.

The HMO plans are purchased fully insured plans in which the HMO's calculate the premiums based on community rates. The coverage available to the participants is basically unlimited but is administered under a managed care arrangement. The State bears no insurance risk for catastrophic occurrences or claims in excess of the capitated premium paid.

The Choice Plus plan provides medical benefits coverage with high dollar limitations. To limit the State's large claims exposure, the State has purchased stop-loss insurance. Premium amounts, shared between the employees and the State, are calculated by Benefits Division analyst and then reviewed by an outside actuary. The State's liability for "incurred but not yet reported" (IBNR) claims is calculated by an outside actuary and is based on the State's previous claims experience.

The self-funded State of Vermont Employee Dental Assistance Plan, which is administered by Northeast Delta Dental, provides up to $1,000 regular dental care annually and up to $1,750 lifetime for orthodontic care for each participant. These plan caps effectively limit the State's exposure to catastrophic loss so no stop-loss insurance has been purchased. The Benefits Division analyst, in consultation with the dental actuary of the plan's administrator, sets the premium rates. Participants include all mentioned above except for retirees and legislators.

The State of Vermont Employee Life Insurance Program consists of a Regular Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to twice a participant's base salary rounded down to the nearest $100. Retirees who work for the State for at least twenty years and who have insurance at the time of retirement receive a retiree life benefit of $5,000 with no AD&D coverage.

Both the Regular Life and AD&D are fully insured products where the carrier retains liability for all claims. Benefits Division personnel calculate the premium rates charged for both of these programs. Active employee's premium costs are shared between the State and the employees. Retired employees' premium costs are fully paid by the State. Of the above groups, only current employees, retired employees, and current members of outside groups are eligible to participate.

A flexible spending account is available to active employees only. This account allows pre-tax salary deduction to be used to pay for eligible medical and dependent care expenses.

An employee assistance program (EAP) was implemented in fiscal year 1999. This program assists employees and family members in addressing problems that impact on lives including family, psychological, stress, financial, drugs, alcoholism, and other issues. Only current state employees and their families may participate in this program. ETP, Inc manages this program and is paid a fee based on the number of employees who work for the State. It is expected to provide, among other things, up to five counseling sessions per case. No claim's costs, or other liabilities are incurred under this plan by the State.

Following is a table displaying three years' changes in the respective funds' claims liability amounts.

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Balance of Liability at End of Fiscal Year
Workers' Compensation Fund				
FY 1999	10,480,859	2,875,277	4,028,641	9,327,495
FY 2000	9,327,495	5,728,010	4,848,810	10,206,695
FY 2001	10,206,695	7,470,814	5,686,611	11,990,898
State Liability Insurance Fund				
FY 1999	4,556,344	1,929,686	1,253,934	5,232,096
FY 2000	5,232,096	1,008,171	1,132,410	5,107,857
FY 2001	5,107,857	3,020,229	1,395,800	6,732,286
Choice Plus - Medical Insurance Fund				
FY 1999	3,851,792	23,225,831	22,251,347	4,826,276
FY 2000	4,826,276	27,388,115	26,697,579	5,516,812
FY 2001	5,516,812	31,122,193	30,178,494	6,460,511
Dental Insurance Fund				
FY 1999	256,401	3,243,116	3,269,947	229,570
FY 2000	229,570	3,483,951	3,457,767	255,754
FY 2001	255,754	3,717,131	3,646,996	325,889
Life Insurance Fund				
FY 1999	0	0	0	0
FY 2000	0	0	0	0
FY 2001	0	0	0	0
Employee Assistance Program				
FY 1999	0	0	0	0
FY 2000	0	0	0	0
FY 2001	0	0	0	0

Note 17: BUDGET TO GAAP RECONCILIATION:

Since the presentation of financial data on a budgetary basis differs from that presented under generally accepted accounting principles, a schedule reconciling the fund balance on a budgetary basis to the GAAP fund balance at June 30, 2001 is presented below.

	General Fund	All Special Revenue Funds
Fund Balance - Budgetary basis	$ 147,434,202	$ 108,055,352
Basis of Accounting Differences:		
Loans and Notes Receivable	5,285,293	101,748,962
Taxes Receivable	97,805,228	8,745,769
Advances To Other Funds	323,700	
Other Receivables	3,123,274	10,152,301
Due From Other Funds	2,285,980	2,666,496
Due From Component Units	264,536	3,921,240
Due From Federal Government		103,036,279
Accounts Payable	(30,818,502)	(109,563,568)
Accrued Liabilities	(7,348,811)	(9,089,987)
Tax Refunds	(72,105,524)	
Due To Other Funds	(12,688)	(61,287)
Due To Other Governments		(409,661)
Due To Component Units	(1,085,254)	(900,000)
Retainage Payable	(427,356)	(2,757,713)
Deferred Revenue	27,516,471	(103,037,582)
Escrow Accounts		2,131,754
Blended Component Units - Cash		10,330,703
Cash on Hand	517,185	1,284,421
Total Fund Balance - GAAP Basis	$ 172,757,734	$ 126,253,479

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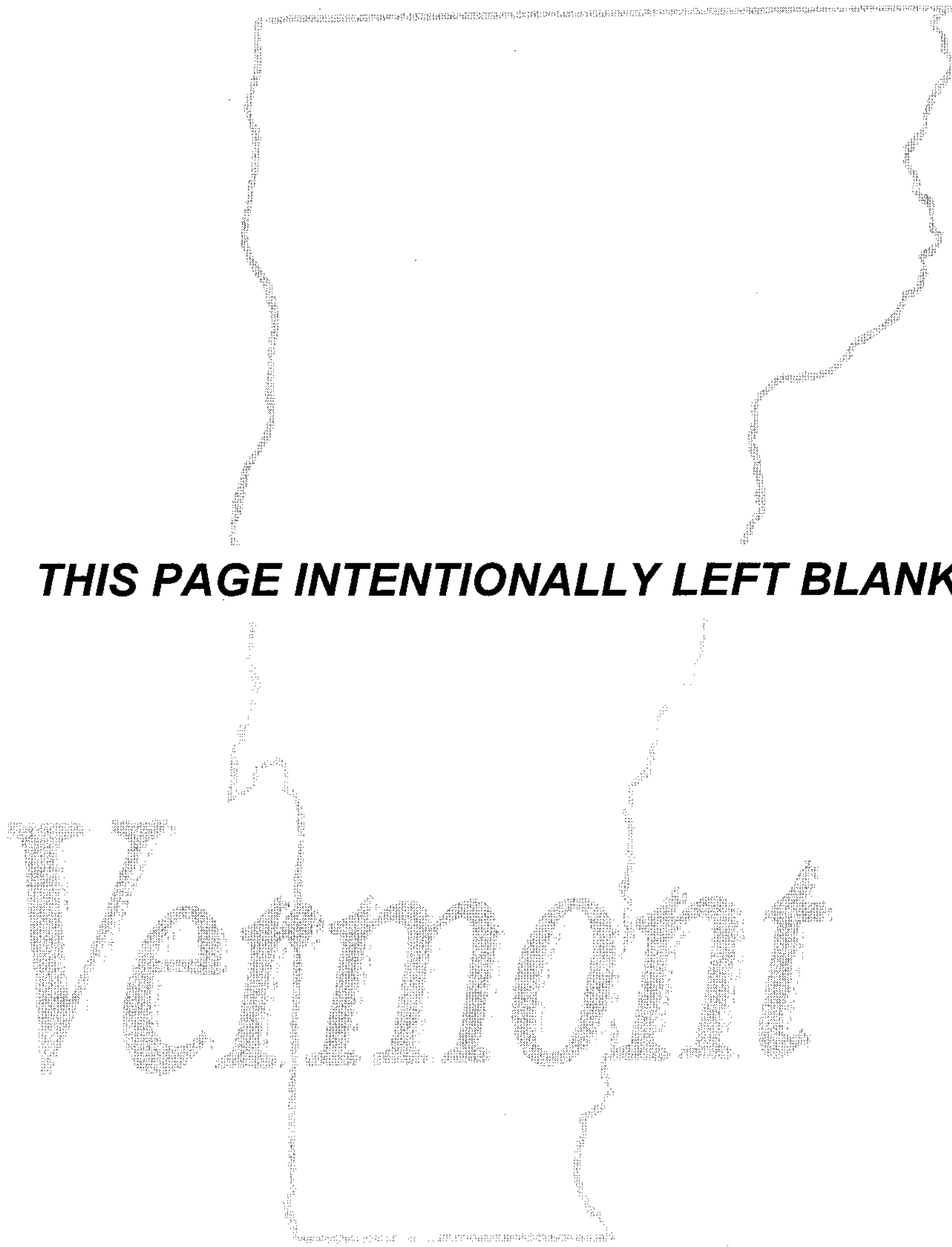

Note 18: INTERFUND BALANCES

A. Interfund assets and liabilities for each individual fund within the Primary Government and within the Component Units at June 30, 2001 were:

Fund Type/Fund	Due From Other Funds	Due To Other Funds	Interfund Loans Receivable	Interfund Loans Payable
General Fund	$ 2,285,980	$ 12,688	$ 9,524,497	$
Special Revenue Funds				
Transportation Fund				
Education Fund	2,605,209			
Special Fund	61,287			
Federal Revenue Fund		61,287		
Enterprise Funds				
Industrial Homework Office Fund				
Vermont Lottery Fund		42,243		
Vermont Life Fund				238,700
Liquor Control Fund		173,331		365,103
Federal Surplus Fund				126,213
Internal Service Funds				
Correctional Industries Fund				1,096,978
Communication & Information Technology Fund				1,283,117
Surplus Property Fund				135,554
Copy Center Fund				1,107,252
Single Audit Revolving Fund				26,863
Postage Fund				651,848
State Liability Insurance Fund		10,053		
Workers' Compensation Fund	10,053			
Risk Management Fund				418,738
Property Management Fund				2,087,965
Equipment Revolving Fund		3,811		1,694,272
GOVnet Fund				53,806
Expendable Trust Funds				
Unemployment Compensation Trust Fund		33,040		
Unemployment Compensation Contingency Fund	33,040			
Abandoned Property Fund	12,688			
Agency Funds				
Retirement Contributions & Withholdings Fund				9,690
Federal Income Tax Witholdings Fund				51,806
Social Security Contributions & Withholdings Fund				80,263
Employee Insurance Contributions & Withholdings Fund				13,725
Employee Deferred Compensation Withholdings Fund				1,264
Unidentified Receipts Fund		4,671,804		
Other Contributions & Withholdings Fund				81,340
Total Primary Government Funds	**$ 5,008,257**	**$ 5,008,257**	**$ 9,524,497**	**$ 9,524,497**
Other Component Units				
Vermont Economic Development Authority				
Vermont Housing and Conservation Board				
Vermont Center For Geographic Information				
Vermont Veterans Home				
Vermont State Colleges				
Total Reporting Entity	**$ 5,008,257**	**$ 5,008,257**	**$ 9,524,497**	**$ 9,524,497**

Advances To Other Funds	Advances From Other Funds	Due From Component Units/Primary Government	Due To Component Units/Primary Government	Advances To Component Units/Primary Government	Advances From Component Units/Primary Government
$ 323,700	$	$ 849,811	$ 1,229,954	$ 1,915,711	$
		1,372,790			
			900,000		
		2,548,450			
	1,700				
	300,000				
	1,200				
	5,700				
	15,100				
$ 323,700	**$ 323,700**	**$ 4,771,051**	**$ 2,129,954**	**$ 1,915,711**	**$ 0**
			4,185,776		1,915,711
		900,000	585,275		
		1,229,954			
$ 323,700	**$ 323,700**	**$ 6,901,005**	**$ 6,901,005**	**$ 1,915,711**	**$ 1,915,711**

B. Operating Transfers between the individual funds of the primary government for the fiscal year ending June 30, 2001 were:

Fund Type/Fund	Transfers From Other Funds	Transfers To Other Funds
General Fund	$ 20,855,048	$ 300,711,299
Special Revenue Funds		
Transportation Fund	8,933,822	10,365,254
Education Fund	263,158,095	5,880,000
Fish & Wildlife Fund	1,170,407	
Special Fund	25,754,410	15,629,673
Federal Revenue Fund	2,008,401	8,533,969
Capital Projects Funds		
General Bond Fund	35,778,442	1,512,767
Transportation Bond Fund	8,308	
Enterprise Funds		
Vermont Lottery Fund	22,162	16,950,084
Liquor Control Fund		327,000
Internal Service Funds		
Postage Fund	169,571	
Property Management Fund		2,388,348
Highway Garage Fund	4,450,000	
Non Expendable Trust Funds		
Higher Education Endowment Fund	1,000,000	
Expendable Trust Funds		
Unemployment Compensation Trust Fund	306,777	354,928
Unemployment Contingent Trust Fund	354,928	306,777
Abandoned Property Fund	12,688	1,768,830
Tobacco Litigation Fund		3,214,230
Tobacco Trust Fund	3,964,230	
All Other Expendable Trust Funds		4,130
Total	**$ 367,947,289**	**$ 367,947,289**

C. Operating Transfers between the individual funds of the primary government and the component unit funds for the fiscal year ending June 30, 2001 were:

Fund Type/Fund	Transfers From Component Units/Primary Government	Transfers To Component Units/Primary Government
Primary Government		
General Fund	$	$ 74,310,716
Special Fund		1,152,016
General Bond Fund		3,801,014
Higher Education Endowment Fund		212,570
Component Units		
Vermont Housing Conservation Board	4,500,000	
Vermont Economic Development Authority	307,336	
Vermont Center for Geographic Information	252,016	
Vermont Student Assistance Corporation	14,912,000	
Vermont Sustainable Jobs Fund	264,710	
Vermont Veterans Home	1,085,254	
Vermont State Colleges	21,037,000	
University of Vermont	37,118,000	
Total	**$ 79,476,316**	**$ 79,476,316**

Note 19: SEGMENT INFORMATION FOR COMPONENT UNITS:

The State consolidates the following discretely presented component units into its comprehensive annual financial report. Segment information for these component units is presented below. Other discretely presented component units contained in the State's comprehensive annual financial report include the University of Vermont and the Vermont State College system. They are not presented below as they utilize a different method of accounting. Their financial statements can be found in the combined section of this CAFR.

CONDENSED BALANCE SHEET		Vermont Student Assistance Corporation		Vermont Economic Development Authority		Vermont Housing & Conservation Board
Assets						
Investments	$	24,792,000	$	26,366,712		23,548,465
Advances/Loans Receivable		869,425,000		48,833,837		41,158,632
Fixed Assets (Net)		3,217,000		99,622		134,200
Other Assets		307,534,000		17,427,915		29,587,958
Total Assets	$	1,204,968,000	$	92,728,086	$	94,429,255
Liabilities						
Current Portion - Debt Obligation	$	25,380,000	$	1,327,998	$	-
Due to Other Governments		20,265,000		4,185,776		585,275
Deferred Revenue		-		-		40,888,262
Advances/Bonds and Notes Payable		1,072,100,000		55,633,676		23,812,073
Other Liabilities		18,545,000		1,032,059		9,425,383
Total Liabilities		1,136,290,000		62,179,509		74,710,993
Fund Equity						
Reserved/Restricted		67,577,000		-		19,430,752
Unreserved /Retained Earnings		1,101,000		30,548,577		287,510
Total Fund Equity		68,678,000		30,548,577		19,718,262
Total Liabilities and Fund Equity	$	1,204,968,000	$	92,728,086	$	94,429,255

CONDENSED STATEMENT OF REVENUES, EXPENDITURES (EXPENSES), AND CHANGES IN FUND BALANCE (RETAINED EARNINGS)		Vermont Student Assistance Corporation		Vermont Economic Development Authority		Vermont Housing & Conservation Board
Operating Revenues						
Interest Income	$	77,899,000	$	5,844,140	$	788,034
Federal Grants		2,196,000		-		6,132,971
Other Revenues (Losses)		13,557,000		514,472		13,186,961
Total Revenues (Operating)		93,652,000		6,358,612		20,107,966
Operating Expenditures/Expenses						
Depreciation/ Amortization		2,545,000		57,202		-
Interest Expense		54,127,000		2,647,214		-
Grants and Loans		16,634,000		-		18,084,857
Other Expenditures /Expenses		23,225,000		2,324,988		3,941,972
Total Expenditures/ Expenses		96,531,000		5,029,404		22,026,829
Operating Income (Loss)		(2,879,000)		1,329,208		(1,918,863)
Non-Operating Revenues (Expenses)						
Transfers From (To) Primary Government		14,912,000		307,336		4,500,000
Sale of Bonds		-		-		-
Payment To Escrow Agent		-		-		-
Other Non-operating Revenues (Expenses)		-		42,392		-
Net Income		12,033,000		1,678,936		2,581,137
Extraordinary Item						
Retained Earnings/Fund Balance- July 1, as restated		56,645,000		28,869,641		17,002,925
June 30	$	68,678,000	$	30,548,577	$	19,584,062

Vermont Sustainable Jobs Fund	Vermont Municipal Bond Bank	Vermont Educational and Health Buildings Financing Agency	Vermont Center For Geographic Information	Vermont Veteran's Home
$ -	$ 45,166,833	$ 1,118,012	$ -	$ 505,897
-	357,253,873	-	-	-
3,173	-	-	26,782	5,222,328
267,440	11,881,033	59,336	141,129	2,459,092
$ 270,613	**$ 414,301,739**	**$ 1,177,348**	**$ 167,911**	**$ 8,187,317**
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
137,953	-	-	53,052	335,828
-	397,636,037	-	-	-
15,886	3,588,738	4,914	30,358	1,093,855
153,839	**401,224,775**	**4,914**	**83,410**	**1,429,683**
-	-	-	-	6,752,145
116,774	13,076,964	1,172,434	84,501	5,489
116,774	**13,076,964**	**1,172,434**	**84,501**	**6,757,634**
$ 270,613	**$ 414,301,739**	**$ 1,177,348**	**$ 167,911**	**$ 8,187,317**
$ 13,488	$ 19,994,941	$ 66,316	$ 7,151	$ 236
-	-			
138,145	6,547,904	92,453	250,163	9,751,506
151,633	**26,542,845**	**158,769**	**257,314**	**9,751,742**
-	224,982	-	16,548	473,626
-	21,080,731	-	-	-
262,153	-	-	-	-
154,487	1,396,434	124,562	448,343	9,846,033
416,640	**22,702,147**	**124,562**	**464,891**	**10,319,659**
(265,007)	**3,840,698**	**34,207**	**(207,577)**	**(567,917)**
264,710	-	-	252,016	1,085,254
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(297)	**3,840,698**	**34,207**	**44,439**	**517,337**
117,071	**9,236,266**	**1,138,227**	**40,062**	**5,797,271**
$ 116,774	**$ 13,076,964**	**$ 1,172,434**	**$ 84,501**	**$ 6,314,608**

Note 20: SUBSEQUENT EVENTS:

Debt Issuance

The State issued $46,000,000 of 2001 Series A General Obligation Bonds, dated October 15, 2001. The State expects to use approximately $14.2 million of the proceeds to restore cash in the treasury for earlier expenditures on capital projects and the remaining amount will be used for future capital projects. Interest rates on these bonds vary from 3.25% to 4.75%. Payments to the bondholders are scheduled to commence August 1, 2002 and terminate August 1, 2020.

The State also issued $5,000,000 of 2001 Series B General Obligation Bonds, dated December 27, 2001. Approximately $3.78 million of the proceeds will be used to restore cash previously expended for authorized capital projects and the remaining amount will be used for future capital projects. Interest rates on these bonds vary from 4.00% to 4.375%. Payments to the bondholders are scheduled to commence August 1, 2002 and terminate August 1, 2011.

APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of $31,555,000 General Obligation Refunding Bonds, 2002 Series B (the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Holder” or “Bondholder” means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

"State Repository" shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), commencing with the report for the fiscal year ended on June 30, 2002 (to be filed no later than June 30, 2003), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to each Repository or the Municipal Securities Rulemaking Board and the State Repository, if any in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available;

Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major General Fund Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State dated December 9, 2002; and

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults.

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties.

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties.

(v) substitution of the credit or liquidity providers or their failure to perform.

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(vii) modifications to rights of Bondholders.

(viii) optional, contingent or unscheduled calls of bonds.

(ix) defeasances.

(x) release, substitution or sale of property securing repayment of the Bonds.

(xi) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event is material under applicable federal securities laws.

(c) If the Issuer determines that the occurrence of a Listed Event is material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository or the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the terms of the Bonds.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the State Treasurer.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided pursuant to the terms of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default pursuant to the terms of the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: ____________, 2002

STATE OF VERMONT, as Issuer

By: ______________________________
James H. Douglas
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: State of Vermont

Name of Bond Issue: $__________ General Obligation Refunding Bonds, 2002 Series B

Date of Issuance: ____________, 2002

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated __________, 2002. The Issuer anticipates that the Annual Report will be filed by _____________.

Dated:_______________

STATE OF VERMONT, as Issuer

By______________________________

EXHIBIT B

List of Nationally Recognized Municipal Securities Information Repositories at the time of execution and delivery of the Continuing Disclosure Agreement.

This list may change from time to time. The Continuing Disclosure Agreement requires that information and notices be provided to each Repository. This list should be checked for changes each time information or notice is to be provided. A current list may be obtained from the Securities and Exchange Commission over the Internet at http://www.sec.gov/info/municipal/nrmsir.htm.

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Email: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

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FORM OF BOND COUNSEL OPINION

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____________, 2002

Honorable Howard B. Dean
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

Re: $31,555,000 State of Vermont General Obligation Refunding Bonds, 2002 Series B

Dear Governor Dean:

We have acted as Bond Counsel in connection with the issuance on the date hereof, by the State of Vermont (the "State") of its General Obligation Refunding Bonds, 2002 Series B (the "Bonds") in an aggregate principal amount of $31,555,000, issued pursuant to and by authority of Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended (the "Bond Act"). The Bond Act is a part of the State Taxation and Finance Law, Chapter 13 of Title 32 of the Vermont Statutes Annotated.

In such connection, we have reviewed the Constitution and statutes of the State, the Tax Certificate and Agreement of the State dated the date hereof (the "Tax Certificate"), certificates of officers of the State and such other documents and matters to the extent we deemed necessary to render the opinions set forth herein. The Bonds are dated December 1, 2002, mature on August 1 in each of the years and bear interest, payable semi-annually on February 1 and August 1 in each year, commencing August 1, 2003, until maturity thereof, at the respective rates per annum, shown below:

2002 Series B Bonds

Due August 1	Principal Amount	Interest Rate
2003	$ 465,000	2.00%
2006	3,935,000	5.00
2007	3,950,000	3.25
2008	3,895,000	5.00
2009	3,900,000	3.50
2010	3,850,000	5.00
2011	3,850,000	5.00
2012	3,855,000	5.00
2013	3,855,000	5.00

Certain agreements, requirements and procedures contained or referred to in the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by and validity against, any parties other than the State. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Tax Certificate including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call your attention to the fact that the rights and obligations under the Bonds and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding general obligations of the State, to the payment of the principal of and interest on which the full faith and credit of the State are pledged.

2. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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